

Sun Ridge Owners Association, Inc.
Financial Statements
December 31, 2015



Sun Ridge Owners Association, Inc.
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December 31, 2015

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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, 2015 and the related statements of revenues and 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, 2015, 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 basic financial statements. Such information is the responsibility of the Board and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portions marked "unaudited" on which we express no opinion, 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, the information is fairly stated in all material respects in relation to the financial statements as a whole.



East Brunswick, New Jersey

May 4, 2016

Sun Ridge Owners Association, Inc.**Balance Sheet****December 31, 2015**

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Assets				
Cash and cash equivalents	\$ 1,341,949	\$ 197,169	\$ 89,978	\$ 1,054,802
Certificates of deposit	175,000	-	-	175,000
Assessments receivable, net of allowance for doubtful accounts of \$291,500	18,850	18,850	-	-
Prepaid expenses	19,217	19,217	-	-
Accrued investment income receivable	199	(525)	-	724
Furniture and equipment, net	-	-	-	-
Interfund balances	-	484	-	(484)
Total Assets	<u>\$ 1,555,215</u>	<u>\$ 235,195</u>	<u>\$ 89,978</u>	<u>\$ 1,230,042</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable and accrued expenses	\$ 26,559	\$ 26,559	\$ -	\$ -
Assessments received in advance	24,677	24,677	-	-
Total Liabilities	51,236	51,236	-	-
Fund Balances	<u>1,503,979</u>	<u>183,959</u>	<u>89,978</u>	<u>1,230,042</u>
Total Liabilities and Fund Balances	<u>\$ 1,555,215</u>	<u>\$ 235,195</u>	<u>\$ 89,978</u>	<u>\$ 1,230,042</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, 2015

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Revenues				
Maintenance assessments	\$ 1,126,266	\$ 868,614	\$ 3,999	\$ 253,653
Snow assessment	140,418	140,418	-	-
Legal fees	35,684	35,684	-	-
Membership fees	17,964	17,964	-	-
Late charges	14,241	14,241	-	-
Township reimbursement	5,984	5,984	-	-
Investment income	2,558	9	11	2,538
Pool fees	1,180	1,180	-	-
Total Revenues	<u>1,344,295</u>	<u>1,084,094</u>	<u>4,010</u>	<u>256,191</u>
Expenses				
General and administrative	292,552	292,552	-	-
Building and grounds	767,819	767,819	-	-
Recreation	76,711	76,711	-	-
Deferred maintenance expenditures	3,445	-	3,445	-
Tennis court improvements	47,860	-	-	47,860
Sidewalk repairs	36,793	-	-	36,793
Railing and gates replacements	22,904	-	-	22,904
Total Expenses	<u>1,248,084</u>	<u>1,137,082</u>	<u>3,445</u>	<u>107,557</u>
Excess (Deficiency) of Revenues over Expenses	96,211	(52,988)	565	148,634
Fund Balances - Beginning of Year	<u>1,407,768</u>	<u>236,947</u>	<u>89,413</u>	<u>1,081,408</u>
Fund Balances - End of Year	<u>\$ 1,503,979</u>	<u>\$ 183,959</u>	<u>\$ 89,978</u>	<u>\$ 1,230,042</u>

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, 2015

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
Cash Flows from Operating Activities				
Excess (deficiency) of revenues over expenses	\$ 96,211	\$ (52,988)	\$ 565	\$ 148,634
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities				
Bad debt expense	66,900	66,900	-	-
Changes in assets and liabilities				
Assessments receivable	(53,048)	(53,048)	-	-
Prepaid expenses	(1,000)	(1,000)	-	-
Accrued investment income receivable	525	525	-	-
Accounts payable and accrued expenses	(53,430)	12,668	-	(66,098)
Assessments received in advance	(13,802)	(13,802)	-	-
	<u>42,356</u>	<u>(40,745)</u>	<u>565</u>	<u>82,536</u>
Net Cash Provided by (Used in) Operating Activities				
	<u>42,356</u>	<u>(40,745)</u>	<u>565</u>	<u>82,536</u>
Cash Flows from Investing Activities				
Maturities of certificates of deposit	650,000	-	-	650,000
	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>650,000</u>
Cash Flows from Financing Activities				
Change in interfund balances	-	(478)	15,037	(14,559)
	<u>-</u>	<u>(478)</u>	<u>15,037</u>	<u>(14,559)</u>
Net Increase (Decrease) in Cash and Cash Equivalents				
	692,356	(41,223)	15,602	717,977
Cash and Cash Equivalents - Beginning of Year				
	<u>649,593</u>	<u>238,392</u>	<u>74,376</u>	<u>336,825</u>
Cash and Cash Equivalents - End of Year				
	<u>\$ 1,341,949</u>	<u>\$ 197,169</u>	<u>\$ 89,978</u>	<u>\$ 1,054,802</u>
Supplemental Disclosures				
Cash Paid During the Year for Income Taxes	<u>\$ 200</u>			

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

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2015

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)

Furniture and Equipment

Furniture and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated life of the assets, 7 years. 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 10)

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2015

Note 3 Investments

The Association holds a certificate of deposit, recorded at cost, which approximates fair value at December 31, 2015, with an interest rate of .50%. The certificate of deposit is scheduled to mature in April 2016.

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, 2015:

Management fees	\$ 7,802
Insurance	4,410
Federal income tax	<u>200</u>
Total	<u>\$ 19,217</u>

Note 5 Furniture and Equipment

Furniture and equipment consists of the following:

Furniture and equipment	\$ 35,104
Less: accumulated depreciation	<u>(35,104)</u>
Furniture and Equipment, net	<u>\$ -</u>

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

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.

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.

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2015

Note 7 Income Taxes (Continued)

For the year ended December 31, 2015, 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, 2015, 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 \$253,653 in the 2015 budget. In addition, investment income earned on replacement fund cash and investments of \$2,538 was also contributed to the replacement fund.

Sun Ridge Owners Association, Inc.
Notes to the Financial Statements
December 31, 2015

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 Snow Assessment

During the year ended December 31, 2015, the Association approved a special assessment of \$136 per unit, plus additional amounts to some units based on their location, to partially fund the excessive costs of snow clearing. The assessment was payable over three months, beginning in May 2015. The total assessment of approximately \$140,000 has been recorded as revenue in the operating fund.

Note 10 Subsequent Events

Sidewalk Project

Subsequent to the year ended December 31, 2015, the Board awarded a contract of approximately \$200,000 for Phase One of the sidewalk project. No amounts have been recorded in the accompanying financial statements.

Pool Project

Subsequent to the year ended December 31, 2015, the Board awarded a contract of approximately \$70,000 for the pool project. No amounts have been recorded in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

Sun Ridge Owners Association, Inc.
Schedule of Information on Future Major Repairs and Replacements
December 31, 2015

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, 2015		<u>\$ 1,230,042</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, 2015

	Actual	(Unaudited) Budget
Revenues		
Maintenance assessments	\$ 1,126,266	\$ 1,124,711
Snow assessment	140,418	-
Legal fees	35,684	35,000
Membership fees	17,964	15,000
Late charges	14,241	5,000
Township reimbursement	5,984	1,500
Investment income	2,558	1,600
Pool fees	1,180	600
Miscellaneous income	-	150
	<hr/>	<hr/>
Total Revenues	1,344,295	1,183,561
Operating Expenses		
General and Administrative		
Management fees	93,173	90,460
Bad debt expense	66,900	20,000
Legal and professional fees	58,373	49,500
Insurance	36,564	43,369
Postage and photocopying	12,472	14,000
Office	8,166	13,000
Engineering	7,281	5,000
Audit	4,300	4,300
Telephone	3,215	3,000
Miscellaneous	2,108	6,000
Operating contingency	-	25,000
Casualty losses	-	2,500
Bank fees	-	100
Federal income taxes	-	100
	<hr/>	<hr/>
Total General and Administrative	292,552	276,329
Building and Grounds		
Snow clearing	292,634	130,000
General grounds maintenance and landscaping	290,377	329,000
Waste removal	84,476	75,000
Pond maintenance/geese control	35,901	25,180
Repairs and maintenance	28,075	15,000
Landscaping improvements	16,311	10,000
Electric	9,643	12,000
Water and sewer expenses	9,134	8,000
Gas	1,172	2,500
Cleaning supplies	96	2,600
	<hr/>	<hr/>
Total Building and Grounds	767,819	609,280

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, 2015

	Actual	(Unaudited) Budget
Operating Expenses (Continued)		
Recreation		
Pool management and supplies	58,000	58,700
Pool repairs and maintenance	18,711	31,000
Total Recreation	<u>76,711</u>	<u>89,700</u>
Deferred Maintenance Fund		
Maintenance assessments allocated to deferred maintenance fund	3,999	4,000
Investment income allocated to deferred maintenance fund	11	-
Total Allocations to the Deferred Maintenance Fund	<u>4,010</u>	<u>4,000</u>
Replacement Fund		
Maintenance assessments allocated to replacement fund	253,653	253,652
Investment income allocated to replacement fund	2,538	1,600
Total Allocations to the Replacement Fund	<u>256,191</u>	<u>255,252</u>
Total Operating Expenses and Allocations to Funds	<u>1,397,283</u>	<u>1,234,561</u>
Deficiency of Revenues over Operating Expenses and Allocations to the Replacement Fund before Budgeted Surplus Carryover	<u>\$ (52,988)</u>	(51,000)
Budgeted Surplus Carryover		<u>51,000</u>
Excess of Revenues over Operating Expenses and Allocations to the Replacement Fund after Budgeted Surplus Carryover		<u>\$ -</u>