

**Drum Point Village West Condominium Association, Inc.**

**Balance Sheet**

**As of March 31, 2001**

	Operating Fund	Replacement Fund	Total
<b>Assets</b>			
Cash	\$ 13,942	\$ 194,021	\$ 207,963
Assessments receivable	7,902	30,870	38,772
Prepaid expenses	2,668	250	2,918
<b>Total Assets</b>	<b>\$ 24,512</b>	<b>\$ 225,141</b>	<b>\$ 249,653</b>
<b>Liabilities and Fund Balances</b>			
Accounts payable and accrued expenses	\$ 6,233	\$ -	\$ 6,233
Accrued income taxes payable	2,042	-	2,042
Prepaid member assessments	1,268	-	1,268
<b>Total Liabilities</b>	<b>9,543</b>	<b>-</b>	<b>9,543</b>
Fund Balance	14,969	225,141	240,110
<b>Total Liabilities and Fund Balance</b>	<b>\$ 24,512</b>	<b>\$ 225,141</b>	<b>\$ 249,653</b>

*See Accompanying Notes to Financial Statements.*

**Drum Point Village West Condominium Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balance**  
**For the Year Ended March 31, 2001**

	Operating Fund	Replacement Fund	Total
<b>Revenues</b>			
Member assessments	\$ 77,697	\$ 18,281	\$ 95,978
Special assessment - siding	-	243,460	243,460
Interest income - banks	-	9,747	9,747
Interest income - member assessments	-	1,082	1,082
Recovery of prior year bad debt provision	1,765	-	1,765
Other income	1,042	-	1,042
<b>Total Revenues</b>	<b>80,504</b>	<b>272,570</b>	<b>353,074</b>
<b>Expenses</b>			
Bank fees	39	-	39
Snow removal	17,824	-	17,824
Critter and pest control	4,888	-	4,888
Postage and office expense	807	-	807
Repairs and maintenance	1,472	450	1,922
Irrigation repair and maintenance	1,386	-	1,386
Legal fees	4,822	4,353	9,175
Engineering Fees	-	750	750
Accounting fees	5,000	-	5,000
Insurance	12,314	-	12,314
Lawn, landscape and trees	16,653	-	16,653
Taxes and registration fees	2,057	-	2,057
Utilities - water	515	-	515
Utilities - electric	3,891	-	3,891
Repairs - siding	-	132,578	132,578
<b>Total Expenses</b>	<b>71,668</b>	<b>138,131</b>	<b>209,799</b>
<b>Excess of Revenue over Expenses</b>	<b>8,836</b>	<b>134,439</b>	<b>143,275</b>
Fund balance as of April 1, 2000	9,662	57,973	67,635
Initial member contributions to working capital	29,200	-	29,200
Interfund transfers	(32,729)	32,729	-
<b>Fund Balance as of March 31, 2001</b>	<b>\$ 14,969</b>	<b>\$ 225,141</b>	<b>\$ 240,110</b>

*See Accompanying Notes to Financial Statements.*

**Drum Point Village West Condominium Association, Inc.**

**Statement of Cash Flows**

**For the Year Ended March 31, 2001**

	Operating Fund	Replacement Fund	Total
<b>Cash Flows from Operating Activities</b>			
Excess of revenues over expenses	\$ 8,836	\$ 134,439	\$ 143,275
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Recovery of prior year bad debt provision	(1,765)	-	(1,765)
Increase in assessments receivable	(5,557)	(30,870)	(36,427)
Increase in prepaid expenses	(810)	(250)	(1,060)
Decrease in accounts payable and accrued expenses	(1,438)	-	(1,438)
Increase in income taxes payable	1,908	-	1,908
Increase in prepaid member assessments	307	-	307
Net cash provided by operating activities	1,481	103,319	104,800
<b>Cash Flows from Investing Activities</b>			
	-	-	-
<b>Cash Flows from Financing Activities</b>			
Initial member contributions to working capital	29,200	-	29,200
Interfund transfers	(32,729)	32,729	-
Net cash (used) provided by financing activities	(3,529)	32,729	29,200
Net (decrease) increase in cash	(2,048)	136,048	134,000
Cash as of April 1, 2000	15,990	57,973	73,963
<b>Cash as of March 31, 2001</b>	<b>\$ 13,942</b>	<b>\$ 194,021</b>	<b>\$ 207,963</b>
<b>Supplemental Cash Flow Information:</b>			
Cash Paid During the Period for:			
Interest	\$ -	\$ -	\$ -
Income taxes	\$ 149	\$ -	\$ 149

*See Accompanying Notes to Financial Statements.*

# Drum Point Village West Condominium Association, Inc.

## Notes to Financial Statements

March 31, 2001

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### 1. Nature and History of Organization

Drum Point Village West Condominium Association, Inc. (the "Association") is a statutory condominium association incorporated in the State of New Jersey on October 8, 1987. The Association is responsible for the operation and maintenance of the common property of Drum Point Village West Condominiums.

Drum Point Village West Condominiums is approved to consist of 95 residential units located on approximately 17 acres in Brick, New Jersey. As of March 31, 2000, only 47 units had been completed but due to construction of the remaining 48 units by a successor sponsor (see note 4), all 95 units have been completed and conveyed to their respective owners as of March 31, 2001.

### 2. Basis of Presentation and Summary of Significant Accounting Policies

#### Fund Accounting

The Association is a not-for-profit organization that employs the fund method of accounting on the accrual basis to ensure compliance with limitations and restrictions on the use of its financial resources as established in the Association's governing documents and by actions of the Board of Trustees or the Association's voting membership.

Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association. Disbursements from this fund are generally at the discretion of the Board of Trustees.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. Disbursements from this fund are generally restricted to the specific purposes established.

#### Estimates

The preparation of the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Member Assessments and Assessments Receivable

Association members are subject to monthly common expense assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The monthly assessment to owners, excluding special assessments, was \$125 for the fiscal year ended March 31, 2001. Of that amount, approximately \$24 was designated to the replacement fund.

In addition to the common expense assessments, owners of the 47 units built and sold by the original sponsor were charged special assessments totaling \$5,180 per unit. These special assessments have been designated for siding replacement and repair (see note 6).

# Drum Point Village West Condominium Association, Inc.

## Notes to Financial Statements

March 31, 2001

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### 2. Basis of Presentation and Summary of Significant Accounting Policies (continued)

#### Member Assessments and Assessments Receivable (cont.)

The monthly assessments are based on the annual budget as determined by the Board of Trustees. The Association retains any excess assessments in the operating fund at year-end for use in future periods as determined annually by the Board of Trustees.

Assessments receivable at the balance sheet date represent assessments and other fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are deemed currently uncollectible by the Association's management.

#### Property and Equipment

Real and common area property acquired from the developer, and subsequent related improvements to such property, are not recorded in the Association's financial statements as they are owned by the individual unit owners in common and not the Association.

#### Income Taxes

For federal income tax purposes, condominium associations may be taxed either as regular corporations or homeowners' associations if they qualify. For the fiscal year ended March 31, 2001, the Association qualified, and elected, to be taxed as an exempt homeowners' association under Internal Revenue Code section 528. Under that section, the Association is not taxed on its exempt function income. Exempt function income is defined as revenues (primarily uniform member assessments) and expenses related to its exempt purpose, which is the acquisition, construction, management and maintenance of association property. Nonexempt function income, primarily interest income and revenues received for activities not solely related to membership, is taxed net of related expenses at a flat rate of 30%.

The statement of revenues, expenses and changes in fund balance for the fiscal year ended March 31, 2001 includes \$2,042 of federal income tax expense and a \$15 annual registration fee to the state of New Jersey. The Association was not liable for any state income tax during the period presented.

### 3. Related Party Transactions

The Association's bylaws permit both the treasurer and secretary to receive reasonable compensation for the time and effort they incur in the performance of their duties. For the fiscal year ended March 31, 2001, no officer or trustee of the Association, including the treasurer and secretary, received compensation for their services as officers or members of the Board.

The Board of Trustees elected to fulfill the major responsibility for the day-to-day maintenance and repair of the irrigation sprinkler system internally. The Board accepted a proposal by the treasurer to perform this function. For the fiscal year ended March 31, 2001 the treasurer received \$233 in compensation for the time and effort incurred in performing this service.

The various officers and trustees of the association owned a total of seven units at various times during the fiscal year ended March 31, 2001. All of these units were invoiced the same membership assessments, and special assessments, charged to all other unit holders. The trustees and officers paid a total of \$33,539 in regular and special assessments on these units during their respective periods of tenure during the year.

# Drum Point Village West Condominium Association, Inc.

## Notes to Financial Statements

March 31, 2001

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### 3. Related Party Transactions (continued)

As of March 31, 2001, there were outstanding receivables from related parties totaling \$1,675 (representing a single unit's final installment of the special assessment, plus accrued interest thereon), while there were no outstanding payables due to any related party.

### 4. Transfer of Development Rights to Successor Sponsor

During December 1999, the right to develop 48 unbuilt units was transferred from the Original Sponsor to the Mignatti Company ("Successor Sponsor"). As of March 31, 2001, the Successor Sponsor has completed construction and conveyed all 48 units to their new owners. The actual closings and transfers of title to the new homeowners occurred during the period commencing September 12, 2000 and ending on February 1, 2001.

On September 21, 1999, prior to the transfer of rights to the Mignatti Company, the Association's Board of Trustees entered into an agreement in principal with the Successor Sponsor to clarify specific issues related to the construction of the new units and still unbuilt recreation facilities. The agreement also addressed issues relating to the subsequent integration of the future owners of the new units into the Association.

In particular, the agreement called for the Association to repair or replace the existing siding on the original 47 units. As of March 31, 2001, the siding has been replaced on 27 of the original 47 units and the project is expected to be complete by the end of December 2001. The funds for this project were provided by a special assessment levied against the owners of the 47 original units only (see note 6). Upon completion of this project, it was agreed that there would be one operating budget and replacement fund for the entire Association and that all future member assessments would be shared equally among both new and existing Association members.

The September 21, 1999 agreement also includes a clause whereby the Mignatti Company agreed that if the then current 47 unit holders elected to eliminate the pool, and other related recreational facilities, included in the original plans of the condominium development, the Successor Sponsor would refund to the Association membership an amount based upon the estimated cost, net of tax, of constructing those facilities.

On September 25, 1999 more than 80% of the 47 original unit holders agreed to eliminate the pool and related recreational facilities. Pursuant to the September 21, 1999 agreement, the Association's Board of Trustees sought and received approval from Brick Township to eliminate the pool and certain related recreational facilities from the condominium development's site plans. During the fiscal year ended March 31, 2001, the Association incurred legal and engineering costs for this purpose in the amount of \$5,103.

It is the position of the Board of Trustees, that any refund received from the successor sponsor pursuant to the September 21, 1999 agreement represents a return of the purchase price paid by the owners of the 47 units existing at September 21, 1999. The Association intends to hold on behalf of these unit owners, any refund received from the Mignatti Company relating to the elimination of the pool and related recreation facilities. Said funds will be applied to offset the costs of the vinyl siding project as well as legal and engineering costs incurred for the removal of the pool and related recreational facilities from the original plans of the condominium development. The balance of any unused funds will be returned to the 47 original unit holders.

# Drum Point Village West Condominium Association, Inc.

## Notes to Financial Statements

March 31, 2001

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### 5. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future maintenance and major repairs and replacements. Accumulated funds, which aggregate \$225,141 at March 31, 2001, are held in separate accounts and generally are not available for operating purposes.

Funds are being accumulated in the replacement fund based on the Association management's estimate of future needs. Actual expenditures may vary from those estimates, and the variation may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs for major repairs and replacements.

The Association has not conducted a study to determine 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. Accordingly, the Association is unable to disclose that information as supplementary information, as required by generally accepted accounting principles. The Board has also not developed a plan to fund those needs that would have been identified by such a study. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, borrow funds or delay replacements until funds are available. The effect on future assessments has not been determined at this time.

### 6. Special Assessments – Siding Repair and Replacement

For the fiscal year ended March 31, 2001, the Association's Board of Trustees approved special assessments of \$180 per unit (assessable only to the original 47 units), totaling \$8,460, as a contingency reserve for anticipated emergency cedar siding repair and replacement for units experiencing water infiltration during severe weather.

At a meeting of the homeowners of the Association on March 24, 2000, the membership approved a proposal by the Board of Trustees to replace all the existing cedar siding with vinyl siding. To fund this project, the membership approved a special assessment of \$5,000 per unit payable in three installments, totaling \$235,000. Additionally, the membership authorized designating \$12,455 of the contingency reserve for emergency siding repairs, the \$180 special assessment for emergency siding repairs and \$11,876 of reserves previously designated for painting to the siding replacement project. The Association has also received approximately \$8,454 of interest income from bank deposits relating to these special assessment fund balances. The estimated cost of the vinyl siding project is approximately \$218,000. The statement of revenues, expenses and changes in fund balance for the fiscal year ended March 31, 2001 includes \$132,578 for siding replacement and/or repairs on the original 47 units leaving a surplus of \$143,667 designated for this specific purpose. It is the position of the Board of Trustees that this project will be completed at, or under, the originally budgeted cost.

At the conclusion of the project, any surplus from these assessments, plus any unused balance of refunds, if any, received from the Successor Sponsor relating to the elimination of the pool and recreational facilities (see note 4), will be refunded to the owners of the 47 units existing at September 21, 1999.

# **Drum Point Village West Condominium Association, Inc.**

## **Notes to Financial Statements**

**March 31, 2001**

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### **7. Construction Defects**

On October 25, 2000 the Association's Board of Trustees entered into an agreement in principal with the Township of Brick and the Original Sponsor to address construction defects relating to the foundations and foundation window well vents of the original 47 units.

In particular, this agreement calls for the Original Sponsor to make repairs to specific sections of the building foundations as outlined in the agreement and in the "Exterior Wall Remediation Plan" dated May 24, 1999, as prepared by Birdsell Engineering. The agreement also provides a warranty for the foundation repairs by the Township for a period of 10 years, and calls for the township to develop and implement a plan to improve the drainage system related to the original 47 units at the Township's expense. Additionally, this agreement provides that in return for these repairs being satisfactorily completed by both the Township and the Original Sponsor, the Association shall "save and hold harmless" the Original Sponsor and the Township of Brick "from any future liability arising from the construction of the [original 47 units] of the development."

As of March 31, 2001, the majority of the foundation repairs have been completed. The Association has not yet received definitive word from the Township as to what the drainage system improvements will consist of, nor when they will be completed.

### **8. Transfers from Operating Fund to Replacement Fund**

On March 1, 2001, the Board of Trustees transferred \$32,729 in surplus operating funds to the replacement fund. Of that amount, \$25,000 was designated for future repairs of driveways and sidewalks, \$5,000 was designated for a future well drilling project to supply water to the irrigation system, and \$2000 was designated for future repairs of fencing. Of the amount transferred, \$729 has not yet been designated for any specific purpose.