

Drum Point Village West Condominium Association, Inc.

Balance Sheet

As of March 31, 2002

	Operating Fund	Replacement Fund	Total
Assets			
Cash	\$ 18,721	\$ 147,577	\$ 166,298
Assessments receivable	3,612	-	3,612
Prepaid expenses	3,062	-	3,062
Interfund receivable (payable)	1,501	(1,501)	-
Total Assets	\$ 26,896	\$ 146,076	\$ 172,972
Liabilities and Fund Balances			
Accounts payable and accrued expenses	\$ 173	\$ 4,277	\$ 4,450
Accrued accounting fees payable	9,245	-	9,245
Accrued income taxes payable	888	-	888
Prepaid member assessments	1,380	-	1,380
Total Liabilities	11,686	4,277	15,963
Fund Balance	15,210	141,799	157,009
Total Liabilities and Fund Balance	\$ 26,896	\$ 146,076	\$ 172,972

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, 2002

	Operating Fund	Replacement Fund	Total
Revenues			
Member assessments	\$104,535	\$ 37,965	\$ 142,500
Interest income	17	5,232	5,249
Interest income - member assessments	-	576	576
Other income	910	-	910
Total Revenues	105,462	43,773	149,235
Expenses			
Bank fees	40	-	40
Snow removal	2,670	-	2,670
Critter and pest control	5,092	-	5,092
Postage and office expense	1,107	-	1,107
Repairs and maintenance	4,457	-	4,457
Irrigation repair and maintenance	2,891	-	2,891
Legal fees	226	1,085	1,311
Accounting and bookkeeping fees	6,900	-	6,900
Insurance	15,381	-	15,381
Lawn, landscape and trees	39,002	-	39,002
Taxes and registration fees	903	-	903
Utilities - water	7,489	-	7,489
Utilities - electric	(578)	-	(578)
Improvements - landscaping	-	10,254	10,254
Repairs - sidewalks	-	11,000	11,000
Repairs - painting	-	15,091	15,091
Repairs - siding	-	70,976	70,976
Total Expenses	85,580	108,406	193,986
Excess (Deficit) of Revenue over Expenses	19,882	(64,633)	(44,751)
Fund balance as of April 1, 2001	14,969	225,141	240,110
Initial member contributions to working capital	1,600	-	1,600
Return of capital contributions	-	(39,950)	(39,950)
Interfund transfers	(21,241)	21,241	-
Fund Balance as of March 31, 2001	\$ 15,210	\$ 141,799	\$ 157,009

See Accompanying Notes to Financial Statements.

Drum Point Village West Condominium Association, Inc.

Statement of Cash Flows

For the Year Ended March 31, 2002

	Operating Fund	Replacement Fund	Total
Cash Flows from Operating Activities			
Excess (deficit) of revenues over expenses	\$ 19,882	\$ (64,633)	\$ (44,751)
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease in assessments receivable	4,290	28,107	32,397
(Increase) decrease in prepaid expenses	(394)	250	(144)
Increase in accounts payable and accrued expenses	3,185	4,277	7,462
Decrease in income taxes payable	(1,154)	-	(1,154)
Increase in prepaid member assessments	112	-	112
Net cash provided by operating activities	25,921	(31,999)	(6,078)
Cash Flows from Investing Activities	-	-	-
Cash Flows from Financing Activities			
Initial member contributions to working capital	1,600	-	1,600
Return of member capital contributions	-	(37,187)	(37,187)
Interfund transfers	(21,241)	21,241	-
Interfund borrowings	(1,501)	1,501	-
Net cash (used) provided by financing activities	(21,142)	(14,445)	(35,587)
Net increase (decrease) in cash	4,779	(46,444)	(41,665)
Cash as of April 1, 2001	13,942	194,021	207,963
Cash as of March 31, 2002	\$ 18,721	\$ 147,577	\$ 166,298

Supplemental Cash Flow Information:

Cash Paid During the Period for:

Interest	\$ -	\$ -	\$ -
Income taxes	\$ 2,042	\$ -	\$ 2,042

Non cash transactions:

- 1) In addition to the \$37,187 of capital contribution refund checks disbursed, the Association offset past-due member assessment receivables of \$2,763 instead of issuing capital refund checks to those unit owners.

See Accompanying Notes to Financial Statements.

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

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. All 95 units have been completed and conveyed to their respective owners.

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 was \$125 for the fiscal year ended March 31, 2002. Of that amount, approximately \$33 was designated to the replacement fund.

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

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

Member Assessments and Assessments Receivable (continued)

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 as homeowners' associations if they qualify. For the fiscal year ended March 31, 2002, 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, 2002 includes \$888 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. Pursuant to a resolution of the Board of Trustees, the treasurer received \$2,400 (\$200 per month) in compensation for the time and effort incurred in performing his services during the fiscal year ended March 31, 2002. No other officer or trustee of the Association, including the Secretary, received compensation for their services as officers or members of the Board. On April 10, 2002, the Board of Trustees authorized an increase in the Treasurer's compensation to \$300 per month.

During the fiscal year ended March 31, 2002, the Association issued \$545 of credits towards a unit owner's monthly assessments as compensation for various handyman services provided to the Association.

The various officers and trustees of the Association owned a total of five units during the majority of the fiscal year. There was a brief period during which six units were owned due to the purchase of a second unit by the Association's Vice President (See discussion below). All of these units were invoiced the

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

3. Related Party Transactions (continued)

same member assessments and applicable fees that were charged to all other unit owners. During fiscal year ended March 31, 2002, the Trustees and Officers were charged a total of \$8,069 of such assessments and fees. Payments from these same related parties totaled \$20,089, which includes a prior year receivable balance of \$1,675 and delinquent balances due from a foreclosed unit (see discussion below).

During calendar year 2001, a unit owner owed the Association a total of \$9,912 of potentially unrecoverable debt. The owner's unit was in foreclosure by the mortgager and scheduled for a foreclosure sale. Since the Association was legally enjoined from recovering this debt from any purchaser at the foreclosure sale, it was the intention of the Association to purchase the unit at the foreclosure sale, and then sell the unit on the open market in an attempt to recover the debt owed by the previous unit owner. Just prior to the foreclosure sale, the Association's Vice President entered into an agreement with the Association, in which the Association agreed not to bid against the Vice President at the foreclosure sale. In return, the Vice President would attempt to purchase the property himself and, if successful, would pay the past due balances owed to the Association by the previous unit owner. The Vice President presented the highest bid at the foreclosure sale and on July 1, 2001, he purchased the unit. The Vice President subsequently paid the Association \$10,345 representing past due balances owed by the previous unit owner and costs incurred by the Association relating to the foreclosure sale. This amount is included in the \$20,089 of payments received by related parties disclosed above.

As of March 31, 2002, there were no outstanding receivables due from any related party, nor were there any outstanding payables due to any related party.

4. Transfer of Development Rights to Successor Sponsor

During December 1999, the right to develop the then 48 unbuilt units was transferred from the Original Sponsor to the Mignatti Company ("Successor Sponsor"), and the Successor Sponsor subsequently constructed and conveyed all 48 of these units to their new owners.

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, 2002, the siding has been replaced on all of the original 47 units. The funds for this project were provided by a special assessment levied during Fiscal 2001 against the owners of the 47 original units only. 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 Successor Sponsor 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.

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

4. Transfer of Development Rights to Successor Sponsor (continued)

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.

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 accept on behalf of these unit owners, any refund received from the Successor Sponsor relating to the elimination of the pool and related recreation facilities. Said funds will be applied to offset legal, engineering and other miscellaneous 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. As of March 31, 2002, the Association has incurred \$6,188 of costs relating to the pool removal agreement, including \$1,085 of legal expense incurred during the current fiscal year ended March 31, 2002.

As of March 31, 2002 the Association and the Successor Sponsor were attempting to come to an agreement as to the estimated cost of constructing the pool facilities. No agreement has yet been reached and the Association has retained counsel for guidance on how to proceed in this matter.

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 \$141,799 at March 31, 2002, are held in separate accounts and generally are not available for operating purposes (See Note 10).

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.

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

6. Return of Excess Capital from Special Assessments – Siding Repair and Replacement

During Fiscal 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, and the \$180 special assessment for emergency siding repairs to the siding replacement project, making the total allocation for this project \$255,915. For the period from the projects inception through March 31, 2002, in addition to the funds allocated from member assessments, the Association has received \$11,959 of interest income from bank deposits relating to the special assessment fund balances. The cost of the vinyl siding project was originally estimated at \$218,000. The statement of revenues, expenses and changes in fund balance for the fiscal year ended March 31, 2002 includes \$70,976 for siding replacement and/or repairs on the original 47 units. In prior periods, the Association expended \$132,578 for this purpose.

Anticipating surplus funds relating to the siding project, the Association returned \$39,950 of the unused special assessments to the owners of the original 47 units during the fiscal year ended March 31, 2002. The siding project was deemed completed on July 1, 2002 and a final refund of the excess special assessments was subsequently issued (See Note 10).

Painting reserves of \$11,876 that were previously re-allocated to the siding project were again re-designated as painting reserve funds after the Board of Trustees determined that it would be better to control the painting repair costs directly through a segregated painting reserve fund. Accordingly, neither the painting reserve allocations, nor the painting expenses are included in the accounting for the siding project.

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 Birdsall 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, 2002, the foundation repairs were completed but the required drainage system improvements had not been determined yet (See Note 10).

Drum Point Village West Condominium Association, Inc.

Notes to Financial Statements

March 31, 2002

8. Transfers from Operating Fund to Replacement Fund

On March 20, 2002, the Board of Trustees transferred \$21,241 in surplus operating funds to the replacement fund. None of this amount has yet been designated for any specific purpose, and is being held as a general reserve for future major repairs and replacement expenses not yet identified (see Note 5).

9. Uninsured Cash Balances

The Association maintains all of its cash balances at one financial institution located in central NJ. Accounts at the financial institution are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Uninsured cash balances are \$66,298 at March 31, 2002. On December 11, 2002, the Board of Trustees passed a resolution to open accounts at a second financial institution to eliminate the risk generally associated with uninsured cash balances.

10. Subsequent Events

Final Return of Excess Special Assessments from Siding Repair and Replacement Project:

The siding project was deemed completed on July 1, 2002. As of that date, the Association had incurred additional project expenses of \$1,465 resulting in a final project cost of \$205,019 and a remaining surplus of \$23,004. After withholding \$6,721 for expenses due from the same unit owners for legal and engineering expenses related to the removal of the Pool (see Note 4), the remaining balance of \$16,283 was refunded to the owners of the original 47 units.

Construction Defects – Drainage System Improvements Project:

During November 2002, the Township began the construction phase for improvements to the drainage system. The Township believes the planned improvements will address the drainage problem that exists for the original 47 units. The Township estimates completion of this phase of the project during the first quarter of 2003. Additionally, the Township has notified the Association that it intends to inspect each of the crawl spaces below the original 47 units for any damage caused by the presence of water. Once these inspections are completed, the Township has stated that it will develop an action plan to remediate such damage, at its expense, on a case-by-case basis.