

**DRUM POINT VILLAGE WEST  
CONDOMINIUM ASSOCIATION, INC.**

FINANCIAL STATEMENTS

MARCH 31, 2005

**SYNKOWSKI & NORMANN**  
**Certified Public Accountants**  
**A Limited Liability Partnership**  
**58 West Main Street**  
**Freehold, New Jersey 07728**

**Synkowski & Normann**

CERTIFIED PUBLIC ACCOUNTANTS  
A LIMITED LIABILITY PARTNERSHIP

58 West Main Street  
Freehold, New Jersey 07728

Phone: (732) 462-2220

Fax: (732) 308-9278

MEMBER AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
NEW JERSEY SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT**

September 30, 2005

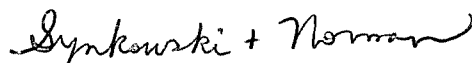
TO THE MEMBERS  
DRUM POINT VILLAGE WEST CONDOMINIUM ASSOCIATION, INC.

We have audited the accompanying balance sheet of Drum Point Village West Condominium Association, Inc. as of March 31, 2005 and the related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Drum Point Village West Condominium Association, Inc. as of March 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 5, the Association has not presented the estimates of future costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.



SYNKOWSKI & NORMANN  
Certified Public Accountants

**DRUM POINT VILLAGE WEST CONDOMINIUM ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**MARCH 31, 2005**

	<u>OPERATING FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash & Interest-Bearing Deposits	\$ 10,022	\$ 135,588	\$ 145,610
Assessments Receivable	8,288		8,288
Prepaid Insurance	3,938		3,938
Interfund Balance	<u>2,810</u>	<u>(2,810)</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 25,058</u>	<u>\$ 132,778</u>	<u>\$ 157,836</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable & Accrued Expenses	\$ 8,018	\$ 305	\$ 8,323
Assessments Received in Advance	<u>3,387</u>	<u>-</u>	<u>3,387</u>
<b>TOTAL LIABILITIES</b>	11,405	305	11,710
<b>FUND BALANCES</b>	<u>13,653</u>	<u>132,473</u>	<u>146,126</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 25,058</u>	<u>\$ 132,778</u>	<u>\$ 157,836</u>

The accompanying notes are an integral part of these financial statements

**EXHIBIT A**

**DRUM POINT VILLAGE WEST CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED MARCH 31, 2005**

	<u>OPERATING FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>REVENUES:</b>			
Maintenance Assessments	\$ 130,635	\$ 28,965	\$ 159,600
Interest Income		2,062	2,062
Late Fees	1,255		1,255
Membership Fees	<u>2,000</u>	<u>-</u>	<u>2,000</u>
<b>TOTAL REVENUES</b>	<u>133,890</u>	<u>31,027</u>	<u>164,917</u>
<b>EXPENSES:</b>			
Auditing Fees	1,800		1,800
Bookkeeping Fees	3,600		3,600
Legal Fees		19,405	19,405
Engineering Fees		1,716	1,716
Bad Debts	4		4
Office Supplies & Postage	569		569
Telephone	191		191
Other Administrative Expenses	230		230
Insurance	23,139		23,139
Water	7,012		7,012
Electricity	332		332
Lawn Care & Landscaping	54,551	17,476	72,027
Irrigation Repairs & Maintenance	5,014		5,014
Critter & Pest Control	11,692		11,692
Snow Removal	23,349		23,349
General Repairs & Maintenance	9,615		9,615
Fencing Improvements	<u>-</u>	<u>300</u>	<u>300</u>
<b>TOTAL EXPENSES</b>	<u>141,098</u>	<u>38,897</u>	<u>179,995</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES</b>	(7,208)	(7,870)	(15,078)
<b>FUND BALANCES - APRIL 1, 2004</b>	<u>20,861</u>	<u>140,343</u>	<u>161,204</u>
<b>FUND BALANCES - MARCH 31, 2005</b>	<u>\$ 13,653</u>	<u>\$ 132,473</u>	<u>\$ 146,126</u>

The accompanying notes are an integral part of these financial statements

**DRUM POINT VILLAGE WEST CONDOMINIUM ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2005**

	<u>OPERATING FUND</u>	<u>CAPITAL REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess (Deficiency) of Revenues Over Expenses	\$ (7,208)	\$ (7,870)	\$ (15,078)
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided (Used) by Operating Activities:			
Interfund Borrowings	(2,810)	2,810	-
(Increase) Decrease in:			
Assessments Receivable (net)	(154)		(154)
Prepaid Insurance	388		388
Increase (Decrease) in:			
Accounts Payable & Accrued Expenses	1,966	(3,805)	(1,839)
Assessments Received in Advance	(125)	-	(125)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(7,943)</b>	<b>(8,865)</b>	<b>(16,808)</b>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT APRIL 1, 2004</b>	<u>17,965</u>	<u>144,453</u>	<u>162,418</u>
<b>CASH &amp; INTEREST-BEARING DEPOSITS AT MARCH 31, 2005</b>	<u>\$ 10,022</u>	<u>\$ 135,588</u>	<u>\$ 145,610</u>

The accompanying notes are integral part of these financial statements

**EXHIBIT C**

**Drum Point Village West Condominium Association, Inc.**  
**Notes to Financial Statements**  
**March 31, 2005**

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**Note 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 the Township of Brick, Ocean County, New Jersey. All 95 units have been completed and conveyed to their respective owners.

**Note 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.

Capital 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.

**Drum Point Village West Condominium Association, Inc.**  
**Notes to Financial Statements**  
**March 31, 2005**

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**Note 2: Basis of Presentation and Summary of Significant Accounting Policies (continued)**

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 \$140 for the fiscal year ended March 31, 2005. Of that amount, approximately \$25 was designated to the capital replacement fund.

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.

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, 2005, 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 Association was not liable for any state or federal income tax during the period presented.

**Drum Point Village West Condominium Association, Inc.**  
**Notes to Financial Statements**  
**March 31, 2005**

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**Note 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 \$3,600 (\$300 per month) in compensation for the time and effort incurred in performing his services during the fiscal year ended March 31, 2005. No other officer or trustee of the Association, including the Secretary, received compensation for their services as officers or members of the Board.

**Note 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.

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.

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.

**Drum Point Village West Condominium Association, Inc.**  
**Notes to Financial Statements**  
**March 31, 2005**

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**Note 4: Transfer of Development Rights to Successor Sponsor (continued)**

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, 2005, the Association has incurred \$49,890 of costs relating to the pool removal agreement, including \$19,405 of legal expense, and \$1,716 of engineering fees incurred during the current fiscal year ended March 31, 2005.

The Association and the Successor Sponsor had attempted to come to an agreement as to the estimated cost of constructing the pool facilities. No agreement had been reached and the Association had retained counsel for guidance on how to proceed in this matter. In late May 2003, under advice of counsel, the Association determined that further negotiations with the Successor Sponsor regarding the construction of the pool were no longer likely to be fruitful. Accordingly, the Association filed suit against the Successor Sponsor on behalf of the 47 original unit holders. The matter was eventually resolved in June 2005 and the Association received a settlement of \$170,000. After deducting the costs incurred by the Association, the remaining funds were distributed to the original 47 unit owners.

**Note 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 \$132,473 at March 31, 2005, 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.

**Drum Point Village West Condominium Association, Inc.**  
**Notes to Financial Statements**  
**March 31, 2005**

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**Note 6: 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, 2005, the foundation repairs, improvements to the drainage system, and crawlspace inspections were completed. However, the Township of Brick has not yet provided the Association with a written report regarding the crawlspace inspections, nor has it developed an action plan to remediate any damage to the crawlspaces that may have resulted from the presence of water in them.