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Four Oaks Neighborhood Condominium Association, Inc.  
Financial Statements and Supplementary Information  
November 30, 2017

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Four Oaks Neighborhood Condominium Association, Inc.  
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November 30, 2017

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## Independent Auditor's Report

To the Board of Trustees and Unit Owners of  
Four Oaks Neighborhood Condominium Association, Inc.

We have audited the accompanying financial statements of Four Oaks Neighborhood Condominium Association, Inc., which comprise the balance sheet as of November 30, 2017, and the related statements of revenues and expenses, changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

### ***Board and Management's Responsibility for the Financial Statements***

The Board and Management are 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.

### ***Auditor's 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 auditor's 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 auditor considers 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, 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.

Four Oaks Neighborhood Condominium Association, Inc.  
Independent Auditor's Report

**Opinion**

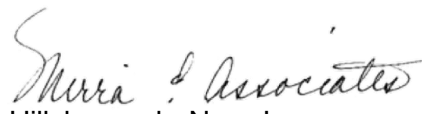
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Four Oaks Neighborhood Condominium Association, Inc. as of November 30, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that future major repairs and replacements on page 13 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 about the methods of preparing the information and comparing the information for consistency with 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 on pages 14 through 16 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association 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 portion marked "unaudited", 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. 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.

  
Hillsborough, New Jersey  
February 6, 2018

Four Oaks Neighborhood Condominium Association, Inc.  
 Balance Sheet  
 November 30, 2017

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 230,870	\$ 140,682	\$ 13,446	\$ 76,742
Certificates of deposit	580,000		-	580,000
Accrued interest receivable	1,701	-	-	1,701
Assessments receivable, net of allowance for doubtful assessments of \$9,300	3,543	3,543	-	-
Prepaid expenses	19,701	19,701	-	-
Due to/(from) funds	-	9,200	-	(9,200)
 Total Assets	 <u>\$ 835,815</u>	 <u>\$ 173,126</u>	 <u>\$ 13,446</u>	 <u>\$ 649,243</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 39,452	\$ 10,790	\$ -	\$ 28,662
Federal income taxes payable	14	14	-	-
Assessments received in advance	27,206	27,206	-	-
 Total Liabilities	 66,672	 38,010	 -	 28,662
 Commitment	 -	 -	 -	 -
 Fund Balances	 <u>769,143</u>	 <u>135,116</u>	 <u>13,446</u>	 <u>620,581</u>
 Total Liabilities and Fund Balances	 <u>\$ 835,815</u>	 <u>\$ 173,126</u>	 <u>\$ 13,446</u>	 <u>\$ 649,243</u>

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

Four Oaks Neighborhood Condominium Association, Inc.  
Statement of Revenues and Expenses  
For the Year Ended November 30, 2017

	Total	Operating Fund	Deferred Maintenance Fund	Replacement Fund
<b>Revenues</b>				
Maintenance assessments	\$ 528,768	\$ 328,456	\$ 12,000	\$ 188,312
Master Association fees	52,488	52,488	-	-
Unit owner reimbursements - exterior lighting	11,735	-	-	11,735
Interest income	9,918	408	8	9,502
Working capital contributions	8,942	8,942	-	-
Lease fee income	5,200	5,200	-	-
Township reimbursement	4,188	4,188	-	-
Late/legal fees and fines income	2,511	2,511	-	-
Miscellaneous income	1,895	1,895	-	-
Insurance claim proceeds	1,521	1,521	-	-
<b>Total Revenues</b>	<b>627,166</b>	<b>405,609</b>	<b>12,008</b>	<b>209,549</b>
<b>Expenses</b>				
Master Association fees	52,488	52,488	-	-
Administrative	108,847	108,847	-	-
Grounds and building maintenance	190,779	190,779	-	-
Utilities	11,319	11,319	-	-
Federal income taxes	592	-	-	592
Garage door painting	10,600	-	10,600	-
Roof replacements	258,500	-	-	258,500
Lighting replacement	41,930	-	-	41,930
Sealcoating	28,662	-	-	28,662
Garage ceiling replacement	22,444	-	-	22,444
Retaining wall replacement	4,200	-	-	4,200
Sidewalk replacement	2,700	-	-	2,700
<b>Total Expenses</b>	<b>733,061</b>	<b>363,433</b>	<b>10,600</b>	<b>359,028</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>\$ (105,895)</b>	<b>\$ 42,176</b>	<b>\$ 1,408</b>	<b>\$ (149,479)</b>

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

Four Oaks Neighborhood Condominium Association, Inc.  
 Statements of Changes in Fund Balances  
 For the Year Ended November 30, 2017

	Total	Operating Fund			Deferred Maintenance Fund	Replacement Fund
		Total Operating Fund	Working Capital Contributions	Cumulative Surplus		
Fund Balances - Beginning of Year	\$ 891,956	\$109,858	\$ 77,858	\$ 32,000	\$ 12,038	\$ 770,060
Working Capital Expense	(16,918)	(16,918)	(16,918)	-	-	-
Excess (Deficiency) of Revenues Over Expenses	<u>(105,895)</u>	<u>42,176</u>	<u>-</u>	<u>42,176</u>	<u>1,408</u>	<u>(149,479)</u>
Fund Balances - End of Year	<u>\$ 769,143</u>	<u>\$135,116</u>	<u>\$ 60,940</u>	<u>\$ 74,176</u>	<u>\$ 13,446</u>	<u>\$ 620,581</u>

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

Four Oaks Neighborhood Condominium Association, Inc.  
Statement of Cash Flows  
For the Year Ended November 30, 2017

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
Cash Flows From Operating Activities				
Excess (deficiency) of revenues over expenses	\$ (105,895)	\$ 42,176	\$ 1,408	\$ (149,479)
Adjustments to reconcile excess (deficiency) of revenues over expense to net cash provided by (used in) operations:				
Bad debt expense	2,690	2,690	-	-
Change in assets and liabilities:				
Assessments receivable	(3,660)	(3,660)	-	-
Prepaid expenses	(4,920)	(4,920)	-	-
Due to/(from) funds	-	(32,720)	(15,885)	48,605
Accounts payable and accrued expenses	25,918	(2,744)	-	28,662
Federal income taxes payable	14	14	-	-
Assessments received in advance	4,724	4,724	-	-
Net Cash Provided By (Used In) Operating Activities	<u>(81,129)</u>	<u>5,560</u>	<u>(14,477)</u>	<u>(72,212)</u>

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



Four Oaks Neighborhood Condominium Association, Inc.  
Statement of Cash Flows  
For the Year Ended November 30, 2017

	<u>Total</u>	<u>Operating Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Replacement Fund</u>
(Continued)				
Cash Flows From				
Investing Activities				
Maturities of certificates of deposit	310,000	50,000	-	260,000
Purchases of certificates of deposit	<u>(210,000)</u>	<u>-</u>	<u>-</u>	<u>(210,000)</u>
Net Cash Provided By Investing Activities	<u>100,000</u>	<u>50,000</u>	<u>-</u>	<u>50,000</u>
Cash Flows From				
Financing Activities				
Working capital expense	<u>(16,918)</u>	<u>(16,918)</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,953	38,642	(14,477)	(22,212)
Cash and Cash Equivalents - Beginning of Year	<u>228,917</u>	<u>102,040</u>	<u>27,923</u>	<u>98,954</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 230,870</u></u>	<u><u>\$ 140,682</u></u>	<u><u>\$ 13,446</u></u>	<u><u>\$ 76,742</u></u>
Supplemental Disclosure				
Income taxes paid	<u><u>\$ 450</u></u>			

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

Note 1 Nature of Organization

Four Oaks Neighborhood Condominium Association, Inc. (the "Association") is a New Jersey corporation subject to the provisions of the Condominium Act of the State of New Jersey. The purpose of the Association is to provide for the preservation of the values and amenities in the community and for the operation and maintenance of the common property. Consisting of 162 residential units, the Association is located in Bedminster, New Jersey.

Members of Four Oaks Neighborhood Condominium Association, Inc. are also members of the Hills Village North Master Association (the "Master"). The Master is responsible for the preservation, maintenance, and management of the major drainage facilities, recreational facilities and field areas. Recreational facilities of the Master include a clubhouse, swimming pool and tennis courts.

Note 2 Summary of Significant Accounting Policies

**Fund Accounting** - The Association's governing documents (i.e., Public Offering Statement, Master Deed, and By-laws) provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts in accordance with the principles of fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

**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 painting, powerwashing, deck treatment and other maintenance services which occur less frequently than annually.

**Replacement Fund** - The purpose of the replacement fund is to accumulate funds over the lives of capital assets which are part of the common elements that are the Association's responsibility to replace so that sufficient amounts are available to pay for their eventual replacement.

**Recognition of Assets** - The Association's property and common elements are owned by the unit owners in condominium form pursuant to the Master Deed wherein each of the individual unit owners holds legal title to an undivided interest in property constituting the common elements. Accordingly, no amounts related to these common elements are included on the accompanying balance sheet of the Association. The common elements generally consist of roadways, walkways, fencing, signage, other areas and portions of the buildings not comprising the individual units.

Note 2 Summary of Significant Accounting Policies (continued)

**Cash and Cash Equivalents** - Cash and cash equivalents include cash held in bank deposit accounts, money market funds and other savings accounts.

**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 of Trustees. 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 and management evaluate the assessments receivable and estimate an allowance for doubtful accounts, based on the current legal status of past due accounts.

**Interest Income** - It is the Association's policy to retain interest earned on all cash equivalents and certificates of deposit in their respective fund.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires the Board to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Subsequent Events** - The Board and management have evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which is the date the financial statements were available to be issued.

Note 3 Certificates of Deposit

At November 30, 2017, certificates of deposit consisted of the following:

<u>Maturity</u>	<u>Interest Rate</u>	<u>Replacement Fund</u>
Within one year	1.25%-1.80%	\$ 120,000
One to two years	1.30%	100,000
Two to three years	1.55%-2.00%	200,000
Three to four years	2.15%	100,000
Four to five years	2.05%	<u>60,000</u>
Total		<u>\$ 580,000</u>

Four Oaks Neighborhood Condominium Association, Inc.  
Notes to Financial Statements  
November 30, 2017

Note 3 Certificates of Deposit (Continued)

The Association intends to hold these certificates of deposit until maturity. Market values approximated amortized costs at November 30, 2017.

Fair value is measured based on Level 2 inputs which are quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Note 4 Prepaid Expenses

Prepaid expenses at November 30, 2017 consisted of the following:

Insurance premiums	\$ 18,056
Trash removal	<u>1,645</u>
Total	<u>\$19,701</u>

Note 5 Federal Income Taxes

Under the Internal Revenue Code, associations may be taxed as a condominium association at their election, or as a regular corporation. The Association may select either method in any year and will generally select the method that results in the lowest tax due. A method selected in one year affects only that year and the Association is free to select either method in future years. By filing as a regular corporation, the Association is generally taxed at a lower rate than by filing as a condominium association.

For the year ended November 30, 2017, the Association expects to be taxed as a corporation. Income taxes of \$592 have been provided based on the excess of non-membership income over non-membership expenses.

The Association's income tax returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

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 6 Replacement Fund

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

The Falcon Group, professional engineering consultants, updated the replacement study effective December 1, 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. Estimates were based on the then current estimated replacement costs. The table included in the unaudited supplementary information on future major repairs and replacements is based on this study.

The study recommends annual contributions of \$184,458 based on the 10% threshold funding method. The Association is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs utilizing the 10% threshold funding method. Threshold funding sets a replacement funding level of maintaining the replacement fund balance above a threshold level (10% of total replacement costs) at its lowest accumulated amount of \$464,366 in 2042, which is below the full funding projected amount. Interest income earned on replacement fund cash accounts, net of Federal income taxes, and unit owner reimbursements for exterior lighting were also allocated to the replacement fund.

Funds are being accumulated in the replacement fund based upon estimated costs for repairs and replacements of common property components. Actual expenditures may vary from the estimated amounts and the variations may be material. 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 7 Working Capital Contributions / Working Capital Expense

Upon the acquisition of title to a unit, each new member of the Association is required to contribute a one-time, non-refundable working capital contribution of two months' maintenance fees at the time of closing. Through the year ended November 30, 2009, it was the Board's policy to allocate working capital contributions collected as a separate component of the operating fund which has been capped at \$77,858. Beginning December 1, 2009, the Board has chosen to allocate such contributions as operating revenues in each future fiscal year then ended.

During the year ended November 30, 2017, the Association charged infrared asphalt restoration expense of \$16,918 to working capital contributions.

Note 8 Master Association Fees

The Master Deed and By-Laws require each association at the “Hills” to pay to the Hills Village North Master Association (“Master Association”) a monthly fee to cover the Master Association’s expenses. The fee is based upon the Master Association’s budget and is allocated to each association based upon its proportionate share of closed units to total closed units of those associations who are members of the Hills Village North Master Association.

In addition, each new member is required to pay a membership fee of two months of the Master Association’s fee in effect at the time of closing. This membership fee is remitted to the Master Association and recorded directly to the fund balance in the Master Association’s financial statements.

Note 9 Township Reimbursement

The Township of Bedminster reimburses the Association for street lighting expenses. During the fiscal year ended November 30, 2017, the Association received quarterly reimbursements for expenses which totaled \$4,188 and has been recorded as operating revenues in the accompanying financial statements. The reimbursement for the fourth quarter of 2017 will be recorded in the year in which received.

Note 10 Commitment

During December 2017, the Association approved Anthony Guiliano, LLC for the replacement of the final ten building roofs at a total cost of approximately \$180,000. The project expense will be charged to the replacement fund in the subsequent year’s financial statements as the work is performed.

Four Oaks Neighborhood Condominium Association, Inc.  
 Supplementary Information  
 Schedule of Future Major Repairs and Replacements  
 November 30, 2017

The Falcon Group, professional engineering consultants, updated the replacement study to be effective December 1, 2016 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following information is based on the study and presents significant information about the components of common property.

<u>Components</u>	Based on 2016 Study (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Balconies	4-6	\$ 399,600
Doors	14	28,350
Façade	24	2,306,875
Patios	2	203,550
Roofs	1-24	1,016,350
Walkway	19	3,432
Fencing	14	5,520
Retaining wall	30	20,000
Roadway	0-10	359,291
Signage	4	5,775
Utility	8	3,804
Walkway - site	2	291,110
		<u><u>\$ 4,643,657</u></u>

Replacement fund balance as of November 30, 2017 \$620,581

Four Oaks Neighborhood Condominium Association, Inc.  
 Supplementary Information  
 Schedule of Total Revenues, Operating Expenses and  
 Allocations to the Funds - Actual to Budget  
 For the Year Ended November 30, 2017

	<u>Actual</u>	<u>(Unaudited) Budget</u>
Revenues		
Maintenance assessments	\$ 528,768	\$ 528,768
Master Association fees	52,488	52,488
Unit owner reimbursements - exterior lighting	11,735	-
Interest income	9,918	-
Working capital contributions	8,942	2,300
Lease fee income	5,200	3,750
Township reimbursement	4,188	5,500
Late/legal fees and fines income	2,511	5,700
Miscellaneous income	1,895	-
Insurance claim proceeds	1,521	-
	<u>627,166</u>	<u>598,506</u>
Expenses		
Master Association Fees	<u>52,488</u>	<u>52,488</u>
Administrative		
Insurance	55,120	60,000
Management	36,478	36,478
Audit	3,600	3,600
Legal - general	3,049	3,000
Bad debt expense	2,690	10,000
Office and postage	2,619	3,000
Miscellaneous	2,146	1,650
Legal - collections	1,624	5,000
Insurance claim expense	1,521	-
Engineering	-	3,000
	<u>108,847</u>	<u>125,728</u>
Total Administrative Expenses	<u>108,847</u>	<u>125,728</u>



Four Oaks Neighborhood Condominium Association, Inc.  
 Supplementary Information  
 Schedule of Total Revenues, Operating Expenses and  
 Allocations to the Funds - Actual to Budget  
 For the Year Ended November 30, 2017

	<u>Actual</u>	<u>(Unaudited) Budget</u>
Expenses (continued)		
Grounds and Building Maintenance		
Landscaping	66,881	64,200
Snow removal	54,794	60,000
General maintenance and repairs	21,764	27,700
Trash removal and recycling	19,740	21,000
Landscaping enhancements / mulching	17,991	20,000
Sprinkler system / drainage	6,611	4,500
Exterminating	2,998	2,000
	<u>190,779</u>	<u>199,400</u>
Total Grounds and Building Maintenance Expenses		
	<u>190,779</u>	<u>199,400</u>
Utilities		
Water	7,138	8,500
Electricity and gas	4,181	5,000
	<u>11,319</u>	<u>13,500</u>
Total Utilities Expenses		
	<u>11,319</u>	<u>13,500</u>
Operating Contingency	<u>-</u>	<u>7,078</u>

Four Oaks Neighborhood Condominium Association, Inc.  
 Supplementary Information  
 Schedule of Total Revenues, Operating Expenses and  
 Allocations to the Funds - Actual to Budget  
 For the Year Ended November 30, 2017

	<u>Actual</u>	<u>(Unaudited) Budget</u>
(Continued)		
Allocations to Funds -		
Deferred Maintenance Fund		
Maintenance assessments (contributions)	12,000	12,000
Interest income	8	-
	<u>12,008</u>	<u>-</u>
Total Allocations to the Deferred Maintenance Fund	<u>12,008</u>	<u>12,000</u>
Replacement Fund		
Maintenance assessments (contributions)	188,312	188,312
Unit owner reimbursements - exterior lighting	11,735	-
Interest income	9,502	-
	<u>209,549</u>	<u>-</u>
Total Allocations to the Replacement Fund	<u>209,549</u>	<u>188,312</u>
Total Expenses and Allocations To the Funds	<u>584,990</u>	<u>598,506</u>
Excess of Revenues Over Expenses	<u>\$ 42,176</u>	<u>\$ -</u>