

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Unit Owners
Cherrywood Homeowners Association, Inc.
River Vale, New Jersey

I have audited the accompanying financial statements of the Cherrywood Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2016, and the related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.

INDEPENDENT AUDITOR'S REPORT (continued):

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cherrywood Homeowners Association, Inc. as of December 31, 2016, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

The Association has not presented information about the estimates of future costs of major repairs and replacements to the common elements that accounting principles generally accepted in the United States of America require to 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. My opinion on the basic financial statements is not affected by the missing information.



Barry J. Arena
Certified Public Accountant
March 1, 2017

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.
 DECEMBER 31, 2016
 BALANCE SHEET

	<u>Operating Funds</u>	<u>Replacement Funds</u>	<u>Escrow Fund</u>	<u>Totals</u>
ASSETS				
Cash - checking	\$ 23,102			\$ 23,102
Cash - restricted		\$ 88,390	\$ 26,296	114,686
Assessments receivable	3,928			3,928
Prepaid expenses	<u>9,338</u>	<u>-</u>	<u>-</u>	<u>9,338</u>
 Total assets	 <u>\$ 36,368</u>	 <u>\$ 88,390</u>	 <u>\$ 26,296</u>	 <u>\$ 151,054</u>

LIABILITIES AND FUND BALANCES

Liabilities:				
Accounts payable	\$ 2,876			\$ 2,876
Assessments received in advance	<u>4,038</u>			<u>4,038</u>
 Total liabilities	 6,914	 -		 6,914
 Due to / (from) other fund	 (4,655)	 6,333	 (1,678)	 -
 Fund balances	 <u>34,109</u>	 <u>82,057</u>	 <u>27,974</u>	 <u>144,140</u>
 Total liabilities and fund balances	 <u>\$ 36,368</u>	 <u>\$ 88,390</u>	 <u>\$ 26,296</u>	 <u>\$ 151,054</u>

See notes to financial statements and independent auditor's report.

CHEERYWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2016

	Operating <u>Fund</u>	Replacement <u>Fund</u>	Escrow <u>Fund</u>	<u>Total</u>
REVENUES:				
Member maintenance	\$ 146,349	\$ 36,543		\$ 182,892
Shortfall assessment income	22,675			22,675
Working capital & escrow assessments	3,624		\$ 3,730	7,354
Late fees, miscellaneous and interest	2,714	101		2,815
Municipal reimbursement	3,648	-	-	3,648
Total revenues	<u>179,010</u>	<u>36,644</u>	<u>3,730</u>	<u>219,384</u>
EXPENSES:				
Management fees	13,697			13,697
Office, bank charges and miscellaneous	1,779			1,779
Legal and accounting fees	7,571			7,571
Other professional fees	3,724			3,724
Telephone	2,317			2,317
Insurance	25,077			25,077
Landscaping	35,943			35,943
Repairs and supplies	142			142
Irrigation repairs and maintenance	13,752			13,752
Fees	120			120
Gutter cleaning	3,959			3,959
Alarm & sprinkler	3,776			3,776
Snow removal and grounds	28,400			28,400
Exterminating & pest control	5,907			5,907
Sanitation services	8,560			8,560
Electricity	645			645
Water	20,913	-	-	20,913
Total expenses	<u>176,282</u>	<u>-</u>	<u>-</u>	<u>176,282</u>
Excess of revenues over expenses	2,728	36,644	3,730	43,102
Fund balances - beginning of year	<u>31,381</u>	<u>45,413</u>	<u>24,244</u>	<u>101,038</u>
Fund balances - end of year	<u>\$ 34,109</u>	<u>\$ 82,057</u>	<u>\$ 27,974</u>	<u>\$ 144,140</u>

See notes to financial statements and independent auditor's report.

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Escrow Fund	Totals
Cash flows from operating activities:				
Excess of revenues over expenses	\$ 2,728	\$ 36,644	\$ 3,730	\$ 43,102
Adjustments to reconcile excess of revenues to cash provided by (used in) operating activities				
(Increase) decrease in:				
Assessments receivable	(2,853)			(2,853)
Due from sponsor	25,954	45,413	24,244	95,611
Prepaid insurance expense	(9,338)			(9,338)
(Decrease) increase in:				
Accounts payable	(15,050)			(15,050)
Assessments received in advance	<u>(621)</u>	<u>-</u>	<u>-</u>	<u>(621)</u>
Cash flows provided by operating activities	<u>820</u>	<u>82,057</u>	<u>27,974</u>	<u>110,851</u>
Cash flows from financing activities:				
(Increase) decrease in due to other funds	<u>(4,655)</u>	<u>6,333</u>	<u>(1,678)</u>	<u>-</u>
Cash flows provided by (used in) financing activities	<u>(4,655)</u>	<u>6,333</u>	<u>(1,678)</u>	<u>-</u>
Net increase (decrease) in cash	(3,835)	88,390	26,296	110,851
Cash balances - beginning of the year	<u>26,937</u>	<u>-</u>	<u>-</u>	<u>26,937</u>
Cash balances - end of the year	<u>\$ 23,102</u>	<u>\$ 88,390</u>	<u>\$ 26,296</u>	<u>\$ 137,788</u>

See notes to financial statements and independent auditor's report.

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 1: ORGANIZATION

The Cherrywood Homeowners Association, Inc. (the Association”) was incorporated on July 26, 2010 pursuant to the provisions of Title 15A of the State of New Jersey to provide for the management, maintenance and care of the Association’s common property. The Association is comprised of 50 units of townhouses and apartments situated in River Vale, N.J.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Estimates

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

Fund Accounting

The Association’s governing documents provide certain guidelines for governing its financial activities. To insure the observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using the principles of fund accounting. The assets, liabilities, fund balances, revenues, and expenditures of the Association are reported in the following funds established according to their nature and purpose:

- a) Operating Fund
This fund is used to account for financial resources available for the general operations of the Association.

- b) Replacement Fund
This fund is used to accumulate financial resources over the estimated lives of the common property elements so that sufficient amounts are available to pay for future major repairs and replacements.

- c) Escrow Fund
The escrow fund represents contributions that are transferrable and are held as security against non-payment of monthly assessments.

Recognition of Assets

Real property and common areas acquired from the developer and the related improvements to such property are not recorded in the Association’s financial statements because those properties are owned by the unit owners in common and not by the Association.

Member Assessments:

Association members are subject to monthly maintenance assessments to provide funds for the Association’s operating expenses and future major repairs and replacements. Any excess assessments at year end are retained by the Association for use in the succeeding year.

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Working Capital and Escrow at Acquisition:

Upon unit acquisition by a new owner there is a non-refundable non-transferrable working capital charge equal to two months regular monthly maintenance charge and upon a unit acquisition from the developer there is a transferrable escrow deposit also equivalent to two months regular monthly maintenance charge.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash includes the checking and money market accounts that maintain a constant \$1. per share.

NOTE 3: DATE OF MANAGEMENT'S REVIEW:

In preparing financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 1, 2017, the date the financial statements were available to be issued.

NOTE 4: ASSESSMENTS RECEIVABLE:

At December 31, 2016 the Association had assessments receivable in the amount of \$3,928. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. It is the opinion of the Association's management that the Association will ultimately prevail against owners with delinquent assessments. Accordingly no allowance for doubtful accounts has been established as of December 31, 2016.

NOTE 5: ASSESSMENTS RECEIVED IN ADVANCE:

Assessments received in advance in the amount of \$4,038 at December 31, 2016 represents owner assessment credits to be applied to the assessments billed during the year ending December 31, 2017.

NOTE 6: CONCENTRATIONS

The sponsor of the Association owns 4 units as of December 31, 2016 and accordingly is responsible for approximately 9% of the Association's revenues.

NOTE 7 RESTATEMENT OF FUND BALANCES AND CONTINGENT ASSET:

The Association's total fund balances at December 31, 2015 have been increased from the previously reported amount of \$14,596 to \$101,138 to give effect to the funds the sponsor owed the Association under provisions of the public offering statement. The sponsor has been presented with an accounting and a request for approximately \$11,500 including escrow deposits and working capital amounting to \$1,908 and prior year operating expenses of approximately \$9,600. It is uncertain at the date of the audit report how much of the requested \$11,500 the sponsor will remit.

CHERRYWOOD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE 8: INCOME TAXES

The Association may elect, on a year to year basis, to be taxed as a homeowners' association pursuant to Section 528 or as a regular corporation under Section 277 of the Internal Revenue Code.

As a homeowner association, a flat tax rate of 30% applies to "net" ordinary income not related to membership dues, common charges or assessments, and their related expenses. Non-membership net income may not be offset by membership losses.

An Association electing to be taxed as a regular corporation, is taxed on net non-membership income and may be taxed on net membership income as well unless an election is made to apply the net membership income to the subsequent year or refund the excess to members or apply the current year's excess as credits to the subsequent year's assessments. Membership net losses can be carried over and applied against net membership income of subsequent years. Regular corporate tax rates are 15% of the first \$50,000 in net income with escalating rates for net taxable income above the first \$50,000. For the year ended December 31, 2016 the Association elected to be taxed as a homeowners association and there was no Federal income tax expense. The Association is incorporated pursuant to Title 15A:1 of the New Jersey Statutes and, therefore, is not liable for New Jersey corporation business income tax.

The Association recognizes tax benefits only the extent it believes it is "more likely than not" that its tax positions will be sustained upon IRS examination. The Association's Federal income tax returns are subject to examination by the Internal Revenue Service, generally for three years after they have been filed. Accordingly, the years 2014, 2015 and the current year 2016 remain subject to examination.

NOTE 9: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has not had an independent engineering and architectural study performed to determine the estimated remaining useful lives and estimated future replacement costs of the common property components and accordingly has not developed a plan to fund those future major repair and replacement costs based on such a study. When replacement funds are needed to meet future major repair and replacement costs the Association may need to increase the regular assessments, levy a special assessment, or delay major repairs and replacements until such time as the funds are available. The effect on future assessments has not been determined at this time.

The Board intends to have a study of the estimated useful lives and estimated future replacement costs performed during 2017.