

BIRCH POINTE CONDOMINIUM ASSOCIATION

FINANCIAL REPORT

DECEMBER 31, 2016

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Birch Pointe Condominium Association
Wilmington, Delaware

We have reviewed the accompanying financial statements of Birch Pointe Condominium Association (a homeowners' association), which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is 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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion on the Financial Statements

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page nine 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, which 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 not audited, reviewed, or compiled the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any assurance on it.

Respectfully submitted,

Sullivan, Bleakley & Company, LLP

Havertown, Pennsylvania
May 19, 2017

EXHIBIT "A"
BALANCE SHEET
DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>ASSETS:</u>			
Cash and Cash Equivalents	97,166	255,020	352,186
Assessments Receivable (Net of \$25,000 Allowance for Doubtful Accounts)	236,127		236,127
Improvements and Loan Costs Less Accumulated Depreciation of \$341,383	827,222		827,222
Interfund Receivable	(150,317)	150,317	0
TOTAL ASSETS	<u>1,010,198</u>	<u>405,337</u>	<u>1,415,535</u>
<u>LIABILITIES:</u>			
Note Payable - M & T Bank	748,551		748,551
Payroll Taxes Payable	2,418		2,418
TOTAL LIABILITIES	750,969	0	750,969
<u>FUND BALANCES (Per Exhibit "B")</u>	<u>259,229</u>	<u>405,337</u>	<u>664,566</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>1,010,198</u>	<u>405,337</u>	<u>1,415,535</u>

NOTE: See Accompanying Notes and Independent Accountants' Review Report.

EXHIBIT "B"
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>REVENUES:</u>			
Condo Fee Income	1,163,970		1,163,970
Miscellaneous Income	4,725		4,725
Interest Income	9	255	264
TOTAL REVENUES	<u>1,168,704</u>	<u>255</u>	<u>1,168,959</u>
<u>EXPENSES</u>			
Common Area Expenses:			
Landscaping	65,235		65,235
Snow Removal	33,398		33,398
Trash Removal	24,757		24,757
Cablevision	128,175		128,175
Electricity and Telephone	28,031		28,031
Water and Sewer	113,233		113,233
Cleaning Maintenance	15,600		15,600
Maintenance Supplies	20,127		20,127
Maintenance and Repairs	72,995		72,995
Security Expenses	4,587		4,587
Pest Control	10,743		10,743
Administrative:			
Bad Debt Expense	12,835		12,835
Depreciation	42,984		42,984
Payroll and Payroll Taxes	99,239		99,239
Insurance	116,129		116,129
Professional Fees	19,278		19,278
Office Expenses	5,346		5,346
Interest Expense	39,403		39,403
Bank Charges	1,957	10	1,967
TOTAL EXPENSES	<u>854,052</u>	<u>10</u>	<u>854,062</u>
EXCESS OF REVENUES OVER EXPENSES	314,652	245	314,897
FUND BALANCES - JANUARY 1, 2016 (DEFICIT)	<u>(55,423)</u>	<u>405,092</u>	<u>349,669</u>
FUND BALANCES - DECEMBER 31, 2016 (To Exhibit "A")	<u>259,229</u>	<u>405,337</u>	<u>664,566</u>

NOTE: See Accompanying Notes and Independent Accountants' Review Report.

EXHIBIT "C"
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>OPERATING ACTIVITIES:</u>			
Excess of Revenues over Expenses	314,652	245	314,897
Depreciation	42,984		42,984
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Increase in Assessments Receivable	(112,330)		(112,330)
Increase in Payroll Taxes Payable	149		149
NET CASH PROVIDED BY OPERATING ACTIVITIES	245,455	245	245,700
<u>INVESTING ACTIVITIES:</u>			
Purchase of Fixed Assets	(54,988)	0	(54,988)
<u>FINANCING ACTIVITIES:</u>			
Principal Payments on Long-Term Borrowing	(192,617)	0	(192,617)
INCREASE (DECREASE) IN CASH	(2,150)	245	(1,905)
CASH BALANCE AT BEGINNING OF YEAR	99,316	254,775	354,091
CASH BALANCE AT END OF YEAR	97,166	255,020	352,186

NOTE: See Accompanying Notes and Independent Accountants' Review Report.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

NOTE #1 – NATURE OF BUSINESS

Birch Pointe Condominium Association (the Association) is a corporation formed in the State of Delaware on July 20, 1989. The Association was formed to provide maintenance, preservation and control of common areas and to promote health, safety and welfare for all residents. The Association does not contemplate pecuniary gain or profit to its members. The Association consists of 294 residential units in 16 buildings, 39 bridges and 49 entrances. The development is located in New Castle County, Delaware.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FUND ACCOUNTING

The Association's governing documents provide certain guidelines for its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using 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 is used to account for financial resources available for the general operations of the Association.

REPLACEMENT FUND

This fund is used to accumulate financial resources designated for future major repairs and replacements.

The accompanying financial statements have been prepared using the accrual basis of accounting under which income is recognized when earned, and expenses are recognized when incurred. Expenses may not be recognized in proportion to revenues recognized on a monthly basis due to the seasonal nature of some expenses.

MEMBER ASSESSMENTS

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. Any excess assessments at year-end are retained by the Association for use in future years. Past due or delinquent fees may be secured by a lien on the homeowner's unit with the power of foreclosure. The Board of Directors considers all assessments (except those disclosed as uncollectible) to be fully collectible.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAXES

Condominium and homeowners associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association elected to be taxed as a homeowners' association.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2013, 2014 and 2015 remain open to examination by the Internal Revenue Service.

USE OF 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.

PROPERTY AND EQUIPMENT

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

CASH AND CASH EQUIVALENTS

The Association considers cash equivalents to be those short-term investments maturing within three months of the balance sheet date.

SUBSEQUENT EVENTS

Generally accepted accounting principles require management to evaluate, through the date the financial statements are issued or available to be issued, events or transactions that may require recognition or disclosure in the financial statements, and to disclose the date through which subsequent events are evaluated. These financial statements were available to be issued May 19, 2017 and this is the date through which subsequent events were evaluated.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

NOTE #3 – NOTE PAYABLE – M & T BANK

The Association pays monthly installments of \$19,335.00 including principal and interest at a rate of 4.54%.

NOTE #4 – REPLACEMENT FUND

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$405,337 at December 31, 2016 are held in a separate account and are generally not available for operating purposes.

In February 2017, the Board of Directors conducted a study to estimate the remaining useful lives and the replacement costs of the Association's common property components (see page 9). The Association is funding for such major repairs and replacements over the estimated useful lives of the common property components based on the study's estimates of current replacement costs, considering funds previously accumulated in the replacement fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, the funds designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to board approval, to increase regular assessments or pass special assessments, or it may delay major repairs and replacements until funds become available.

SUPPLEMENTARY INFORMATION

FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2016
BIRCH POINTE CONDOMINIUM ASSOCIATION

The Board of Directors conducted a study in February, 2017, 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 do not take into account the effects of inflation between the date of the study and the date 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>Component</u>	<u>Estimated Remaining Useful Lives (Years) at February, 2017</u>	<u>Estimated Current Replacement Costs at February, 2017</u>	<u>Replacement Fund Balance at December 31, 2016</u>
Balcony	1 – 25	6,104,000	265,090
Decks	6 – 25	45,000	2,027
Doors	9 – 25	17,000	811
Electrical	0 – 25	147,000	6,485
Fire Safety	10 – 25	115,200	4,864
Interior Finish	3 – 10	351,000	15,403
Patio	10 – 35	85,120	3,648
Roof	15 – 25	672,115	29,184
Windows	9 – 25	86,400	3,648
Bridges	21 – 30	214,500	9,323
Mailboxes/Pads	10 – 30	50,000	2,027
Retaining Walls	4 – 25	88,000	3,648
Roadway	6 – 15	1,273,609	55,126
Shed	10 – 30	3,250	0
Signage	10 – 20	3,600	0
Stairs and Railings	12 – 30	35,700	1,621
Vehicle	8 – 15	18,000	811
Walkway	4 – 5	<u>39,000</u>	<u>1,621</u>
		<u>9,348,494</u>	<u>405,337</u>

NOTE: See Accompanying Notes and Independent Accountants' Review Report.