

POCONO FARMS EAST ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015

Zavada & Associates
Certified Public Accountants

POCONO FARMS EAST ASSOCIATION, INC.

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Balance Sheet	3
Statement of Revenue and Expenses	4
Statement of Fund Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7-9
Supplementary Information on Future Major Repairs and Replacements (compiled)	10

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pocono Farms East Association, Inc.
Tobyhanna, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Pocono Farms East Association, Inc, which comprise the balance sheet as of December 31, 2015, and the related statements of revenues and expenses, changes in fund equity 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 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 made by management, 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.

Zavada & Associates

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pocono Farms East Association, Inc as of December 31, 2015, 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 information on future major repairs and replacements on page 10 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 of management about the methods of preparing the information and comparing the information for consistency with management's 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.

Forty Fort, Pennsylvania
February 20, 2016

A handwritten signature in black ink that reads "Zavada & Associates". The signature is stylized, with the first letter 'Z' being particularly large and looping.

POCONO FARMS EAST ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2015

ASSETS

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents - operating	\$ -	\$ 13,214	\$ 13,214
- restricted	95,401	-	95,401
Dues receivable, net of allowance for doubtful accounts of \$237,000	-	254,189	254,189
Restricted assessments receivable, net of allowance for doubtful accounts of \$63,523	-	-	-
Prepaid expenses	<u>-</u>	<u>5,397</u>	<u>5,397</u>
Total current assets	<u>95,401</u>	<u>272,800</u>	<u>368,201</u>
Other assets:			
Property and equipment, net of accumulated depreciation of \$156,233 (Note 3)	<u>-</u>	<u>573,284</u>	<u>573,284</u>
Total other assets	<u>-</u>	<u>573,284</u>	<u>573,284</u>
Total assets	<u>\$ 95,401</u>	<u>\$ 846,084</u>	<u>\$ 941,485</u>

LIABILITIES AND FUND EQUITY

Liabilities:			
Deferred member assessments	\$ -	\$ 10,603	\$ 10,603
Accounts payable	<u>-</u>	<u>253</u>	<u>253</u>
Total liabilities	<u>-</u>	<u>10,856</u>	<u>10,856</u>
Fund equity:			
Restricted	95,401	-	95,401
Unrestricted	<u>-</u>	<u>835,228</u>	<u>835,228</u>
Total fund equity	<u>95,401</u>	<u>835,228</u>	<u>930,629</u>
Total liabilities and fund equity	<u>\$ 95,401</u>	<u>\$ 846,084</u>	<u>\$ 941,485</u>

See Independent Auditors' Report and Notes to Financial Statements.

**POCONO FARMS EAST ASSOCIATION, INC.
STATEMENT OF REVENUE AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Revenue:			
Dues and assessments and other charges	\$ -	\$ 215,654	\$ 215,654
Builder permit revenue	-	2,250	2,250
Interest	90	171	261
Resale certificate	-	13,830	13,830
Capital transfer fee	-	9,490	9,490
Community center room rental	-	8,035	8,035
Miscellaneous	-	777	777
Violations	-	12,250	12,250
Tenant reg. fees	<u>-</u>	<u>6,700</u>	<u>6,700</u>
Total revenue	<u>90</u>	<u>269,157</u>	<u>269,247</u>
Expenses:			
Maintenance – common areas	-	16,972	16,972
Legal and collection	-	7,191	7,191
Management and consulting	-	50,560	50,560
Insurance	-	18,512	18,512
Accounting and auditing	-	4,800	4,800
Postage and printing	-	5,754	5,754
Office expense	-	9,299	9,299
Utilities and telephone	-	9,204	9,204
Site coordinator	-	7,725	7,725
Permit coordination fees	-	5,242	5,242
Depreciation	-	26,534	26,534
Bad debt expense	-	63,478	63,478
Miscellaneous	<u>-</u>	<u>544</u>	<u>544</u>
Total expenses	<u>-</u>	<u>225,815</u>	<u>225,815</u>
Excess (Deficit) of revenue over expenses	\$ <u>90</u>	\$ <u>43,342</u>	\$ <u>43,432</u>

See Independent Auditors' Report and Notes to Financial Statements.

**POCONO FARMS EAST ASSOCIATION, INC.
STATEMENT OF FUND EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Balance, January 1, 2015	\$ 58,224	\$ 828,973	\$ 887,197
Interfund transfers (net)	37,087	(37,087)	-
Excess (Deficit) of revenue over expenses	<u>90</u>	<u>43,342</u>	<u>43,432</u>
Balance, December 31, 2015	\$ <u>95,401</u>	\$ <u>835,228</u>	\$ <u>930,629</u>

See Independent Auditors' Report and Notes to Financial Statements.

POCONO FARMS EAST ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (Deficit) of revenues over expenses	\$ 90	\$ 43,342	\$ 43,432
Adjustments to reconcile excess of revenues over expenses to cash flows from operating activities:			
Depreciation	-	26,534	26,534
(Increase) decrease in:			
Dues and assessments receivable (net)	-	(15,173)	(15,173)
Prepays	-	1,245	1,245
Increase (decrease) in:			
Accounts payable and deferred member assessments	<u>-</u>	<u>(6,519)</u>	<u>(6,519)</u>
Net cash provided by operating activities	<u>90</u>	<u>49,429</u>	<u>49,519</u>
Cash flows from investing activities:			
Purchase of fixed assets	-	(6,323)	(6,323)
Interfund transfers	<u>37,087</u>	<u>(37,087)</u>	<u>-</u>
Net cash used by investing activities	<u>37,087</u>	<u>(43,410)</u>	<u>(6,323)</u>
Increase (decrease) in cash	37,177	6,019	43,196
Cash balance, January 1, 2015	<u>58,224</u>	<u>7,195</u>	<u>65,419</u>
Cash balance, December 31, 2015	\$ <u>95,401</u>	\$ <u>13,214</u>	\$ <u>108,615</u>
Cash paid for:			
Interest expense			\$ <u>-</u>
Income taxes			\$ <u>-</u>

See Independent Auditors' Report and Notes to Financial Statements.

POCONO FARMS EAST ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

Pocono Farms East Association, Inc. is a Homeowners Association formed as a Pennsylvania Domestic Non-Profit Corporation comprised of 1185 properties in the Pocono Farms subdivision of Tobyhanna, Pennsylvania.

Basis of Accounting

The Association's policy is to prepare its financial statements using the accrual basis of accounting whereby revenues are recognized when billed and expenses are recognized when the obligation is incurred. The restricted fund is used to account for road assessments and the related costs associated with the replacement of the Association's common property.

Cash and Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less to be a cash equivalent.

Property and Equipment

Property and equipment costs are capitalized at cost and depreciated over their estimated useful lives using the straight-line method.

Although the Association is responsible for the repair and replacement of common real property, it is unable to sell or otherwise dispose of this property.

Members Dues and Assessments

The Association's policy is to assess interest on any owner's account with a balance that is past due. The past due account continues to accrue interest until the account is paid or written off. The Association's policy is to write off an account upon foreclosure, bankruptcy discharge, or when considered legally uncollectible for other reasons.

Deferred Member Assessments

The annual billing of members' assessments is generated during December of the year prior to the year for which the billing pertains. Deferred member assessments represent assessments collected or credited in advance of the calendar year to which they relate.

POCONO FARMS EAST ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued:

Income Taxes

The Association can elect annually to file its federal income tax return under Section 528 as a Homeowners Association or Section 277 as a regular corporation. For the year ended December 31, 2015, it has elected to file under Section 528 and incurred no tax liability. Under this method, it is taxed on net income from non-membership sources, primarily interest. The Association is exempt from state income taxes.

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. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Concentrations of Credit Risk

Substantially all of the Association's revenue is derived from homeowners in Pocono Farms East Association, Inc. The Association has the right to file a lien on the property of any owner who fails to pay dues and assessments.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. DUES AND RESTRICTED ASSESSMENTS RECEIVABLE:

The Association provides an allowance for uncollectible assessments based upon determinations made by management and the Board of Directors. The details of assessments receivable are as follows:

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Current year's dues and assessments	\$ -	\$ 174,911	\$ 174,911
Prior years' dues, assessments and penalties	<u>63,523</u>	<u>316,278</u>	<u>379,801</u>
	63,523	491,189	554,712
Less allowance for doubtful accounts	<u>(63,523)</u>	<u>(237,000)</u>	<u>(300,523)</u>
	\$ <u>-</u>	\$ <u>254,189</u>	\$ <u>254,189</u>

POCONO FARMS EAST ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3. PROPERTY AND EQUIPMENT:

As of December 31, 2015, property and equipment consisted of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	\$ 2,871	\$ -	\$ 2,871
Mail box pavilion	24,085	(16,473)	7,612
Maintenance shed	9,494	(5,933)	3,561
Office equipment	3,727	(3,727)	-
Land improvements	20,445	(20,445)	-
Community center building	<u>668,895</u>	<u>(109,655)</u>	<u>559,240</u>
	<u>\$ 729,517</u>	<u>\$ (156,233)</u>	<u>\$ 573,284</u>

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS:

The Association is funding major repairs and replacements over the estimated useful lives of the common area components based upon a study to estimate their remaining useful lives and replacement costs. Actual expenditures for such items may vary from the estimated amounts and the variations may be material. If additional funds are needed, the Association has the right to increase regular assessments, levy special assessments, borrow, or delay major repairs and replacements until funds are available.

NOTE 5. SUBSEQUENT EVENTS:

Subsequent events were evaluated through February 20, 2016 which is the date the financial statements were available to be issued.

POCONO FARMS EAST ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (COMPILED)
DECEMBER 31, 2015

The Association conducted an informal study in 2015 to estimate the remaining useful lives and replacement costs of the components of common property. The study will be updated annually by management. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study.

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 Life (Years)</u>	<u>Estimated Future Replacement Cost</u>	<u>Accumulated Reserve Requirement</u>	<u>Annual Reserve Requirement</u>
Mailbox Pavilion	5	\$ 21,787	\$ 16,340	\$ 1,089
Pavilion Paving	5	12,000	6,000	1,200
Maintenance Shed	5	9,494	7,120	475
Office Equipment	1	3,727	3,354	373
Roads	2	20,445	16,356	2,045
Community Center	28	245,375	16,358	8,179
Office Parking Lot Sealcoating	3	3,000	1,200	600
Office Parking Lot Paving	8	20,000	4,000	2,000
Septic System	2	1,000	500	200
Entrance Sign	10	7,500	2,500	500
Drainage System	0-2	<u>30,000</u>	<u>20,000</u>	<u>5,000</u>
Total		<u>\$ 374,328</u>	<u>\$ 93,728</u>	<u>\$ 21,661</u>

At December 31, 2015, the Association had a total of \$95,401 in its Money Market Accounts for reserve expenditures.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20