

POCONO FARMS EAST ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013

POCONO FARMS EAST ASSOCIATION, INC.

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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, 2013, 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.

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, 2013, 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.

Other Matter

Management has omitted information about future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Forty Fort, Pennsylvania
February 7, 2014

POCONO FARMS EAST ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2013

ASSETS

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents - operating	\$ -	\$ 1,777	\$ 1,777
- restricted	39,907	-	39,907
Dues receivable, net of allowance for doubtful accounts of \$220,000	-	228,518	228,518
Restricted assessments receivable, net of allowance for doubtful accounts of \$68,006	-	-	-
Prepaid expenses	<u>-</u>	<u>5,181</u>	<u>5,181</u>
Total current assets	<u>39,907</u>	<u>235,476</u>	<u>275,383</u>
Other assets:			
Property and equipment, net of accumulated depreciation of \$104,105 (Note 3)	<u>-</u>	<u>619,090</u>	<u>619,090</u>
Total other assets	<u>-</u>	<u>619,090</u>	<u>619,090</u>
Total assets	<u>\$ 39,907</u>	<u>\$ 854,566</u>	<u>\$ 894,473</u>

LIABILITIES AND FUND EQUITY

Liabilities:			
Deferred member assessments	\$ -	\$ 8,914	\$ 8,914
Accounts payable	<u>-</u>	<u>2,337</u>	<u>2,337</u>
Total liabilities	<u>-</u>	<u>11,251</u>	<u>11,251</u>
Fund equity:			
Restricted	39,907	-	39,907
Unrestricted	<u>-</u>	<u>843,315</u>	<u>843,315</u>
Total fund equity	<u>39,907</u>	<u>843,315</u>	<u>883,222</u>
Total liabilities and fund equity	<u>\$ 39,907</u>	<u>\$ 854,566</u>	<u>\$ 894,473</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, 2013**

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Revenue:			
Dues and assessments and other charges	\$ -	\$ 200,662	\$ 200,662
Builder permit revenue	-	3,600	3,600
Interest	23	96	119
Resale certificate	-	6,820	6,820
Capital transfer fee	-	4,118	4,118
Violations	-	22,975	22,975
Community center room rental	-	8,269	8,269
Miscellaneous	<u>-</u>	<u>1,470</u>	<u>1,470</u>
 Total revenue	 <u>23</u>	 <u>248,010</u>	 <u>248,033</u>
Expenses:			
Maintenance – common areas	-	27,310	27,310
Legal and collection	-	5,051	5,051
Management and consulting	-	53,560	53,560
Insurance	-	18,101	18,101
Accounting and auditing	-	4,800	4,800
Postage and printing	-	3,995	3,995
Office expense	-	9,296	9,296
Utilities and telephone	-	9,201	9,201
Site coordinator	-	7,725	7,725
Permit coordination fees	-	5,085	5,085
Depreciation	-	26,477	26,477
Bad debt expense	-	63,908	63,908
Miscellaneous	<u>-</u>	<u>1,991</u>	<u>1,991</u>
 Total expenses	 <u>-</u>	 <u>236,500</u>	 <u>236,500</u>
 Excess (Deficit) of revenue over expenses	 <u>\$ 23</u>	 <u>\$ 11,510</u>	 <u>\$ 11,533</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, 2013**

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Balance, January 1, 2013	\$ 21,662	\$ 850,027	\$ 871,689
Interfund transfers (net)	18,222	(18,222)	-
Excess (Deficit) of revenue over expenses	<u>23</u>	<u>11,510</u>	<u>11,533</u>
Balance, December 31, 2013	<u>\$ 39,907</u>	<u>\$ 843,315</u>	<u>\$ 883,222</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, 2013

	<u>Restricted</u>	<u>Operating</u>	<u>Total</u>
Cash flows from operating activities:			
Excess (Deficit) of revenues over expenses	\$ 23	\$ 11,510	\$ 11,533
Adjustments to reconcile excess of revenues over expenses to cash flows from operating activities:			
Depreciation	-	26,477	26,477
(Increase) decrease in:			
Dues and assessments receivable (net)	-	(27,434)	(27,434)
Prepays	-	(95)	(95)
Increase (decrease) in:			
Accounts payable and deferred member assessments	-	5,007	5,007
Builder permit deposits	-	(150)	(150)
Net cash provided by operating activities	<u>23</u>	<u>15,315</u>	<u>15,538</u>
Cash flows from investing activities:			
Purchase of fixed assets	-	(831)	(831)
Interfund transfers	<u>18,222</u>	<u>(18,222)</u>	<u>-</u>
Net cash used by investing activities	<u>18,222</u>	<u>(19,053)</u>	<u>(831)</u>
Increase (decrease) in cash	18,245	(3,738)	14,507
Cash balance, January 1, 2013	<u>21,662</u>	<u>5,515</u>	<u>27,177</u>
Cash balance, December 31, 2013	<u>\$ 39,907</u>	<u>\$ 1,777</u>	<u>\$ 41,684</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, 2013

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, 2013**

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, 2013, 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 2011, 2012, and 2013 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	\$ -	\$ 150,946	\$ 150,946
Prior years' dues, assessments and penalties	<u>68,006</u>	<u>297,572</u>	<u>365,578</u>
	68,006	448,518	516,524
Less allowance for doubtful accounts	<u>(68,006)</u>	<u>(220,000)</u>	<u>(288,006)</u>
	\$ <u>-</u>	\$ <u>228,518</u>	\$ <u>228,518</u>

POCONO FARMS EAST ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

NOTE 3. PROPERTY AND EQUIPMENT:

As of December 31, 2013, 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	21,787	(12,847)	8,940
Maintenance shed	9,494	(4,984)	4,510
Office equipment	3,727	(3,727)	-
Land improvements	20,445	(17,591)	2,854
Community center building	<u>664,871</u>	<u>(64,956)</u>	<u>599,915</u>
	<u>\$ 723,195</u>	<u>\$ (104,105)</u>	<u>\$ 619,090</u>

NOTE 4. RESERVES:

Although the Association has not conducted a formal study to determine the useful lives and replacement costs of its common property, the Board of Directors has allocated \$39,907 in its money market accounts for the capital expenditures.

NOTE 5. SUBSEQUENT EVENTS:

Subsequent events were evaluated through February 7, 2014 which is the date the financial statements were available to be issued.