

HIGHVIEW CONDOMINIUM II

Financial Statements

December 31, 2016

and

December 31, 2015

HIGHVIEW CONDOMINIUM II

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
of Highview Condominium II

We have audited the accompanying financial statements of Highview Condominium II (a NY State of corporation), which comprise the balance sheet as of December 31st, 2016, and the related statements of income, retained earnings, 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 Highview Condominium II as of December 31st, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Joseph D. Sciarrino, CPA

Staten Island, NY

February 17th, 2017

**Highview Condominium II
Comperative Balance Sheet
At December 31,**

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 321,711	\$ 154,218
Unit owners' receivables, net of allowance for doubtful accounts	46,936	31,932
Prepaid insurance	8,777	8,187
Prepaid expenses	1,350	1,240
Owner's loan receivable	178,228	-
Other receivables	3,116	9,564
Total Asset	<u>\$ 560,118</u>	<u>\$ 205,141</u>
 <u>Liabilities and Stockholder's Equity</u>		
<u>Liabilities</u>		
Accounts payable & Accrued expenses	\$ 16,492	\$ 36,138
Common charges received in advance	1,438	3,344
Empire state bank loan	185,375	-
Payroll tax liabilities	963	798
Other current liabilities	-	-
Total Liabilities	<u>\$ 204,268</u>	<u>\$ 40,280</u>
 Fund Balances	 \$ 355,850	 \$ 164,861
 Total Liabilities and Capital	 <u>\$ 560,118</u>	 <u>\$ 205,141</u>

**Highview Condominium II
Statement of Revenue and Expenses
At December 31,**

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
Common charges	\$ 286,800	\$ 286,800
Assessment fee income	400,000	-
Antenna income	36,975	35,677
Laundry income	7,901	20,034
Other income	5,301	19,947
Fines / Late fee income	3,120	1,500
Investment income	212	370
Total Revenue	<u>\$ 740,309</u>	<u>\$ 364,328</u>
<u>Expenses</u>		
Wages and employee benefits	51,596	31,496
Utilities	57,740	81,134
Water and sewer charges	27,627	41,908
Repairs and Maintenance	57,381	176,953
Insurance	40,681	25,963
Managing agent fees	15,870	16,243
Supplies	787	4,735
Professional fees	28,890	13,008
Engineering fees	-	15,432
Administrative and other	10,596	13,785
Licenses, permits and fees	-	2,209
Interest expense	3,221	-
Violations	4,000	5,969
State, local and other taxes	10,095	11,027
Total Expenses	<u>\$ 308,484</u>	<u>\$ 439,862</u>
Excess of revenue over (under) expenses before capital improvements	<u>\$ 431,825</u>	<u>\$ (75,534)</u>
<u>Expenses from capital replacements</u>		
Mailboxes	1,353	3,441
Security cameras & upgrades	22,281	4,866
Doors and windows	13,207	4,129
Exterior remodel & waterproofing	68,403	-
Interior design & lighting	87,592	-
Parking lot repairs	10,000	-
Sidewalks	17,500	-
Garage floor repairs	14,263	-
Plumbing and electrical	6,237	-
Total expenses from capital replacements	<u>240,836</u>	<u>12,436</u>
Net income (loss)	<u>\$ 190,989</u>	<u>\$ (87,970)</u>
Capital Balance - Beginning	<u>164,861</u>	<u>252,831</u>
Capital Balance - Ending	<u>\$ 355,850</u>	<u>\$ 164,861</u>

**Highview Condominium II
Statement of Cash Flows
At December 31,**

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Excess of Revenue over / (under) Expenses	\$ 190,989	\$ (87,970)
Adjustments needed to reconcile excess of expenses over revenues to net cash provided by operating activities:		
(Increase) Decrease in		
Reduction in allowance for doubtful accounts	-	-
(Decrease) Increase in		
Unit Owners' receivables	(15,004)	(15,575)
Other receivables	6,448	(9,564)
Owner's loan receivable	(178,228)	-
Prepaid insurance	(700)	(861)
Accounts payable & Accrued expenses	(19,646)	5,760
Common charges received in advance	(1,906)	(5,529)
Taxes payable	-	(1,486)
Empire State bank loan	185,375	-
Payroll tax liabilities	165	798
Other current liabilities	-	(550)
Net Cash flows (used in) / provided by operating activities	<u>\$ 167,493</u>	<u>\$ (114,977)</u>
Net Increase in cash	\$ 167,493	\$ (114,977)
Cash Beginning of the year	<u>154,218</u>	<u>269,195</u>
Cash end of the year	<u>\$ 321,711</u>	<u>\$ 154,218</u>
Supplemental Disclosure		
Cash paid during the year for		
Income taxes	<u>\$ 10,095</u>	<u>\$ 2,601</u>

HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 1 Nature of Organization:

Highview Condominium II (the "Condominium"), located in Staten Island, New York, is a condominium pursuant to Article 9-b of the Real Property Law of the State of New York. The purposes of the Condominium are to provide for the preservation of the values in the community and for the maintenance of the common facilities. The Condominium consists of 67 residential units.

Note 2 Summary of Significant Accounting Policies:

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board of Managers (the "Board") 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.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in the bank deposits and money market accounts. Cash and cash equivalents may, at times, exceed the federally insured limits.

Uninsured Cash Balances

The cooperative maintains several accounts at local banks which comprise the cash reserve fund. Cumulative balances in excess of \$250,000 for 2016, per institution are not covered by the Federal Deposit Insurance Company. At December 31, 2016, there were no interest bearing deposits which exceeded the federal depository coverage.

Common Charges and Unit Owners' Receivables

The Condominium's members are subject to monthly common charges based upon the annual budget and as determined by the Board. The Condominium 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 Condominium's governing documents. A portion of the monthly common charges are allocated to the replacement fund.

HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 2

Summary of Significant Accounting Policies (continued):

Common Charges and Unit Owners' Receivables (Continued)

On a periodic basis, the Board evaluates the assessments receivable and estimate an allowance for doubtful accounts, based on the history of past write-offs and collections and the current legal status of past due accounts.

Prepaid Expenses

Prepaid expenses reflect advance payment of insurance premiums as well as other prepaid expenses.

	<u>2016</u>	<u>2015</u>
Prepaid insurance	\$8,777	\$ 8,187
Other prepaid expenses	<u>1,350</u>	<u>1,240</u>
Total	\$10,127	\$ 9,427

Investment Income Earned

The Board's policy is to retain investment income earned on all replacement fund interest bearing cash accounts in the replacement fund.

Antenna Income

The Condominium records antenna income as it becomes due under the terms of the lease agreement, which is currently month to month at \$3,116 with escalations at each anniversary of the commencement date (May) at 3 %.

Other Receivables

As at December 31, 2015 other receivable consists of amounts due from two vendors per vending agreements (CSC Serviceworks and T-Mobile). December 31, 2016 only had a receivable from T-Mobile. No provision for bad debts has been provided for as no uncollectible accounts are anticipated.

Note 3

Corporate Taxes:

Under the Internal revenue Code, condominiums may be taxed as a regular corporation or as a condominium management association, which is based on an annual election and meeting certain criteria. The Condominium may select either method in any year. A method selected in one year affects only the year and the Condominium is free to select either method in future years.

**HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016**

Note 3 Corporate Taxes (Continued):

For the year ended December 31, 2016, the Condominium expects to be taxed as a regular corporation and, therefore, will not be taxed as a condominium management association. Federal income taxes have been provided based on the excess of non-membership income over non-membership expenses.

The Condominium was formed pursuant to article 9-B of the Real Property Law of the state of New York and is liable for New York State corporation business income tax. New York State corporate taxes have been provided for the year ended December 31, 2016.

The Condominium evaluates its tax provisions and accruals, and believes that they are appropriate based on current facts and circumstances. The prior three years tax returns as filed remain open for examination by the respective taxing authorities.

For federal tax purposes, the Condominium has incurred net operating losses (NOL's) of approximately \$306,533 utilizable to offset future taxable income, if any, and will pay no current federal taxes. These losses begin to expire in 2028, the balance unexpired at December 31, 2016 is \$227,336.

Due to the nature of the Condominium, the likelihood of utilization of NOL as a tax benefit is remote. Accordingly, no deferred tax asset has been recognized.

Note 4 Cash Reserve Fund:

	<u>2016</u>	<u>2015</u>
Balance - beginning of year	\$ 154,218	\$ 269,195
Add: Interest earned	212	370
Funds transferred from (to) operating acct.	167,281	(115,347)
Balance - end of year	<u>\$ 321,711</u>	<u>\$ 154,218</u>
Balance consists of:		
Citibank checking account	\$ 5,438	\$ 5,000
Citibank savings account	244,682	119,309
JP Morgan Chase operating account	16,111	15,005
JP Morgan Chase savings account	21,568	14,904
Eprrie State Bank operating	33,912	
Total	<u>\$ 321,711</u>	<u>\$ 154,218</u>

HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Replacement Fund

The Condominium's governing documents do not require that funds be accumulated for future major repairs and replacements. However, a replacement fund has been established and accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

Becht Engineering, P.C., professional engineering consultants, prepared a study in October 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. The study includes those components with an estimated remaining useful life within the Board-determined useful life guidelines for inclusion in the replacement schedule for purposes of determining annual funding. The estimates were based on the then current estimated replacement costs. The type of study was an updated with site visit. The table included in the unaudited supplementary information on future major repairs and replacements is based on the updated study.

The Board is funding for the estimated costs of future major repairs and replacements over the remaining useful lives of the components as described below. The engineering study is recommending funding utilizing the threshold funding methodology. Threshold funding, based upon a 30 year cash flow analysis, sets a replacement funding goal of keeping the replacement fund balance above a specified dollar amount at its lowest accumulated amount, as specified by the Board, but below the full funding determined level. The funding requirement per the 2010 study is \$66,347 using a threshold level of \$46,264 which is approximately 5% of the estimated replacement cost of the common property. The study uses an interest rate of 3% and an inflation rate of 2%. The Board has provided for replacement funding in the 2016 budget. A loan was obtained from Empire State Bank in the amount of \$400,000 to cover such replacements. Investment income earned on the replacement fund cash accounts of \$212 has been 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. Additionally, replacement fund cash balances may, at times, be less than or more than the fund balance resulting in an interfund balance.

**HIGHVIEW CONDOMINIUM II
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2016**

Replacement Fund (Continued)

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 Condominium has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available, if possible.

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

<u>Components</u>	<u>As of 2010 Study (Unaudited)</u>	<u>Estimated Current Replacement Costs</u>
	<u>Estimated Remaining Useful Lives (Years)</u>	
Architectural	0-15	\$ 215,386
Electrical	2-23	220,869
Mechanical	3-22	319,325
Site	3-10	94,701
Interior	1-12	<u>75,000</u>
Total		<u>\$ 925,281</u>
Replacement fund balance as of December 31, 2016		<u>\$.....300,162</u>

HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 5 Accounts Payable and Accrued Expenses:

Accounts payable and accrued expenses consist of:

	<u>2016</u>	<u>2015</u>
Repairs & Maintenance	\$1,154	\$20,278
Capital replacements	3,871	-
Professional fees	5,500	5,500
Water	-	5,450
Gas	3,449	3,713
Electric	2,518	1,197
Total	<u>\$16,492</u>	<u>\$36,138</u>

Note 6 Common charges and Other income:

Consists of the following:

	<u>2016</u>	<u>2015</u>
Common charges	\$286,800	\$286,800
Assessment fee income	400,000	-
Antenna income	36,975	35,677
Laundry	7,901	20,034
Other income	5,301	19,947
Fines/Late fee income	3,120	1,500
Investment income	212	370
Total	<u>\$704,309</u>	<u>\$ 364,328</u>

Note 7 Repairs and Maintenance:

Consists of the following:

	<u>2016</u>	<u>2015</u>
R&M (includes capital replacements 2015)	\$12,163	121,304
Landscaping & Snow removal	11,539	10,643
Compactor	-	5,166
Plumbing	2,129	12,878
Electrical repairs	4,549	7,474
Elevator repairs	5,064	5,353
Supplies	10,560	7,170
Exterminator	7,077	5,444
Boiler	4,300	1,521
Total	<u>\$57,381</u>	<u>\$176,953</u>

HIGHVIEW CONDOMINIUM II
NOTES TO THE FINANCIAL STATEMENTS
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Note 8 Capital Replacements:

In April 2016, the board approved an assessment in the amount of \$400,000. About 52% of the owners paid the assessment in full (May 2016), the remaining 48% of owners entered into a loan agreement with Empire State Bank in the amount of \$193,620 plus interest for a cumulative monthly payment of \$3,811 (divided proportionately). The loan is self-liquidating with a 5 year term and a fixed interest rate of 6.75% per annum. As at December 31, 2016 the remaining principal balance was \$185,375, the loan matures on September 2021.

Note 9 Common charges and Assessments:

In 2016, there was no increase to the common charges.

Note 10 Pending Litigation:

As of December 31, 2016 there two pending litigations:

Highview vs. Plotch. A lien for unpaid common charges in the amount of \$7,975 was filed on May 10, 2016.

On July 30, 2016 a lien for unpaid common charges in the amount of \$17,178.40 was filed (Federal National Mortgage Association v. Anthony Russo & Highview Condominium II). The owner is deceased. A notice of claim was served on the executor. Foreclosure proceeding is to be commenced where the first mortgage exceeds the value of the property.

Note 11 Subsequent events:

There were no subsequent events at December 31, 2016.