

Highview Condominium II
Financial Statements
December 31, 2013



Highview Condominium II
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December 31, 2013

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Independent Auditors' Report

To the Board of Managers and Unit Owners of

Highview Condominium II

We have audited the accompanying financial statements of Highview Condominium II (the "Condominium") which comprise the balance sheet as of December 31, 2013 and the related statements of revenues and expenses and changes in fund balances and cash flows for the years then ended, and the related notes to the financial statements.

The Board of Managers' Responsibility for the Financial Statements

The Board of Managers (the "Board") 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.

Auditors' 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 auditors' 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 the Board, 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 the Condominium as of December 31, 2013, and the results of its operations and cash flows for the years then ended in accordance 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 the 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 the Board about the methods of preparing the information and comparing the information for consistency with their 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.

Report on Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 11 and 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Board and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information, except for the portions marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



New York, NY

November 18, 2014

Highview Condominium II
Balance Sheet
December 31, 2013

| | <u>Total</u> | <u>Operating Fund</u> | <u>Replacement Fund</u> |
|---------------------------------------------------------------------------------|--------------------------|---------------------------|-----------------------------|
| Assets | | | |
| Cash | \$ 267,081 | \$ 88,810 | \$ 178,271 |
| Unit owners' receivables, net of allowance for doubtful accounts of \$19,900 | 7,247 | 7,247 | - |
| Prepaid insurance | 3,040 | 3,040 | - |
| Interfund balances | - | 25,220 | (25,220) |
| Total Assets | <u><u>\$ 277,368</u></u> | <u><u>\$ 124,317</u></u> | <u><u>\$ 153,051</u></u> |
| Liabilities and Fund Balances | | | |
| Liabilities | | | |
| Accounts payable and accrued expenses | \$ 33,635 | \$ 33,635 | \$ - |
| Common charges received in advance | 24,178 | 24,178 | - |
| Corporate taxes payable | 266 | 266 | - |
| Other current liabilities | 550 | 550 | - |
| Total Liabilities | 58,629 | 58,629 | - |
| Fund Balances | <u>218,739</u> | <u>65,688</u> | <u>153,051</u> |
| Total Liabilities and Fund Balances | <u><u>\$ 277,368</u></u> | <u><u>\$ 124,317</u></u> | <u><u>\$ 153,051</u></u> |

The accompanying notes are an integral part of these financial statements.

Highview Condominium II
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2013

| | Total | Operating Fund | Replacement Fund |
|------------------------------------------|-------------------|-------------------|---------------------|
| Revenues | | | |
| Common charges | \$ 286,800 | \$ 254,018 | \$ 32,782 |
| Antenna income | 32,254 | 32,254 | - |
| Laundry income | 8,100 | 8,100 | - |
| Other income | 6,887 | 6,887 | - |
| Fines income | 2,400 | 2,400 | - |
| Investment income | 356 | - | 356 |
| Total Revenues | <u>336,797</u> | <u>303,659</u> | <u>33,138</u> |
| Expenses | | | |
| Administrative | 144,157 | 144,157 | - |
| Building operations | 59,466 | 59,466 | - |
| Utilities | 96,270 | 96,270 | - |
| Water lines | 21,000 | - | 21,000 |
| Total Expenses | <u>320,893</u> | <u>299,893</u> | <u>21,000</u> |
| Excess of Revenues over Expenses | 15,904 | 3,766 | 12,138 |
| Fund Balances - Beginning of Year | <u>202,835</u> | <u>61,922</u> | <u>140,913</u> |
| Fund Balances - End of Year | <u>\$ 218,739</u> | <u>\$ 65,688</u> | <u>\$ 153,051</u> |

The accompanying notes are an integral part of these financial statements.

Highview Condominium II
Statement of Cash Flows
For the Year Ended December 31, 2013

| | <u>Total</u> | <u>Operating Fund</u> | <u>Replacement Fund</u> |
|-----------------------------------------------------------------------------------------------------------------|-------------------|---------------------------|-----------------------------|
| Cash Flows from Operating Activities | | | |
| Excess of revenues over expenses | \$ 15,904 | \$ 3,766 | \$ 12,138 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities | | | |
| Bad debt expense | 7,100 | 7,100 | - |
| Changes in assets and liabilities | | | |
| Unit owners' receivables | (7,268) | (7,268) | - |
| Prepaid insurance | 985 | 985 | - |
| Accounts payable and accrued expenses | (3,167) | (3,167) | - |
| Common charges received in advance | 8,025 | 8,025 | - |
| Corporate taxes payable | (2,492) | (2,492) | - |
| Net Cash Provided by Operating Activities | 19,087 | 6,949 | 12,138 |
| Cash Flows from Financing Activities | | | |
| Changes in interfund balances | - | 11,834 | (11,834) |
| Net Increase in Cash | 19,087 | 18,783 | 304 |
| Cash - Beginning of Year | 247,994 | 70,027 | 177,967 |
| Cash - End of Year | <u>\$ 267,081</u> | <u>\$ 88,810</u> | <u>\$ 178,271</u> |
| Supplemental Disclosure | | | |
| Cash Paid During the Year for | | | |
| Income taxes | <u>\$ 4,806</u> | | |

The accompanying notes are an integral part of these financial statements.

Highview Condominium II
Notes to the Financial Statements
December 31, 2013

Note 1 Nature of Organization

The 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.

Fund Accounting

The Condominium's legal documents (i.e., Declaration and By-laws) provide certain guidelines to govern the Condominium's financial activities. The Condominium's accounts are maintained in accordance with the principles of fund accounting.

The assets, liabilities and fund balances of the Condominium are reported in the following fund groups:

Operating Fund

This fund represents the portion of expendable funds that is available for the general operations of the Condominium.

Replacement Fund

The purpose of the replacement fund is to accumulate funds for future major repairs and replacements of the Condominium's common property as determined by the Board.

Recognition of Assets

The Condominium's property and other common elements are owned by the unit owners in condominium form pursuant to the Declaration wherein each of the individual unit owners hold legal title to an undivided interest in property constituting the common elements. The use and disposition of these properties are restricted or governed by the Condominium's legal documents. Accordingly, no amounts related to these common elements are included on the accompanying balance sheet of the Condominium. The common elements generally consist of sidewalks and portions of the building not comprising the individual units.

Highview Condominium II
Notes to the Financial Statements
December 31, 2013

Note 2 Summary of Significant Accounting Policies (Continued)

Cash

Cash is held in bank deposit accounts which, at times, may exceed federally insured limits.

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.

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.

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.

Subsequent Events

The Board has evaluated subsequent events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.

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 and will generally select the method that results in the lowest tax due. A method selected in one year affects only that year and the Condominium is free to select either method in future years.

For the year ended December 31, 2013, 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.

Highview Condominium II
Notes to the Financial Statements
December 31, 2013

Note 3 Corporate Taxes (Continued)

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, 2013.

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.

Note 4 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 performed 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 \$65,046 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 of \$32,782 in the 2013 budget. In addition, investment income earned on the replacement fund cash account of \$356 has been allocated to the replacement fund.

Highview Condominium II
Notes to the Financial Statements
December 31, 2013

Note 4 Replacement Fund (Continued)

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. 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.

SUPPLEMENTARY INFORMATION

Highview Condominium II
Schedule of Information on Future Major Repairs and Replacements
December 31, 2013

Becht Engineering P.C., professional engineering consultants, conducted 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 following table is based on the updated study and presents significant information about the components of common property.

| <u>Components</u> | As of 2010 Study (Unaudited) | |
|--------------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|
| | <u>Estimated Remaining Useful Lives (Years)</u> | <u>Estimated Current Replacement Costs</u> |
| Architectural | 0-15 | \$ 215,386 |
| Electrical | 2-23 | 220,869 |
| Mechanical | 3-22 | 319,325 |
| Site | 3-10 | 94,701 |
| Interior | 1-12 | 75,000 |
| Total | | <u>\$ 925,281</u> |
| Replacement fund balance as of December 31, 2013 | | <u>\$ 153,051</u> |

Highview Condominium II
Schedule of Total Revenues, Operating Expenses and Allocations to
the Replacement Fund as Compared to Budget
For the Year Ended December 31, 2013

| | Actual | (Unaudited) Budget |
|-----------------------------------------|----------------|-------------------------------|
| | <u>Actual</u> | <u>(Unaudited) Budget</u> |
| Revenues | | |
| Common charges | \$ 286,800 | \$ 286,800 |
| Antenna income | 32,254 | 32,256 |
| Laundry income | 8,100 | 8,100 |
| Other income | 6,887 | 12,012 |
| Fine income | 2,400 | - |
| Investment income | 356 | 2,000 |
| | <u>336,797</u> | <u>341,168</u> |
| Operating Expenses | | |
| Administrative | | |
| Payroll | 46,702 | 47,584 |
| Insurance | 25,335 | 28,501 |
| Management services | 15,368 | 15,792 |
| Engineering and other professional fees | 11,971 | 4,098 |
| Employee benefits | 9,685 | 6,427 |
| Bad debt expense | 7,100 | - |
| Audit fees | 5,850 | 5,709 |
| Corporate taxes | 5,808 | 8,064 |
| Payroll taxes | 5,304 | 5,389 |
| Telephone | 3,252 | 3,492 |
| Licenses and fees | 2,858 | 1,437 |
| Printing and postage | 2,567 | - |
| Payroll service | 1,184 | 1,023 |
| Legal fees | 1,173 | 444 |
| | <u>144,157</u> | <u>127,960</u> |
| Building Operations | | |
| Landscaping | 11,394 | 13,011 |
| Supplies | 9,179 | 8,082 |
| Repairs and maintenance | 8,157 | 10,355 |
| Elevator repairs | 6,968 | 9,000 |
| Exterminating | 6,391 | 6,477 |
| Plumbing repairs and maintenance | 5,622 | 5,129 |
| Elevator maintenance | 3,306 | 6,072 |

Highview Condominium II
Schedule of Total Revenues, Operating Expenses and Allocations to
the Replacement Fund as Compared to Budget
For the Year Ended December 31, 2013

| | Actual | (Unaudited) Budget |
|-----------------------------------------------------|-------------------|-----------------------|
| | <u> </u> | <u> </u> |
| Operating Expenses (Continued) | | |
| Building Operations (Continued) | | |
| Security repairs and maintenance | 2,934 | - |
| Miscellaneous | 2,379 | - |
| Fire and safety | 2,362 | 3,145 |
| Compactor maintenance | 544 | 1,362 |
| Website | 225 | 300 |
| HVAC maintenance | 5 | 2,500 |
| Trash | - | 1,579 |
| Inspections and permits | - | 1,380 |
| Sprinklers | - | 800 |
| | <u> </u> | <u> </u> |
| Total Building Operations | <u>59,466</u> | <u>69,192</u> |
| | | |
| Utilities | | |
| Gas, oil and electric | 62,637 | 76,842 |
| Water and sewer | 33,633 | 34,392 |
| | <u> </u> | <u> </u> |
| Total Utilities | <u>96,270</u> | <u>111,234</u> |
| | | |
| Replacement Fund | | |
| Common charges allocated to the replacement fund | 32,782 | 32,782 |
| Investment income allocated to the replacement fund | 356 | - |
| | <u> </u> | <u> </u> |
| Total Allocations to the Replacement Fund | <u>33,138</u> | <u>32,782</u> |
| | | |
| Total Operating Expenses and Allocations to | | |
| the Replacement Fund | <u>333,031</u> | <u>341,168</u> |
| | | |
| Excess of Revenues over Operating Expenses | | |
| and Allocations to the Replacement Fund | <u>\$ 3,766</u> | <u>\$ -</u> |