

**Hudson Troy Towers Apartment Corporation**  
**Financial Statements**  
**December 31, 2013**



# Hudson Troy Towers Apartment Corporation

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December 31, 2013

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## **Independent Auditors' Report**

### **To the Board of Directors and Shareholders of**

### **Hudson Troy Towers Apartment Corporation**

We have audited the accompanying financial statements of Hudson Troy Towers Apartment Corporation (the "Corporation") which comprise the balance sheet as of December 31, 2013 and the related statements of revenues and expenses, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

### ***The Board of Directors' Responsibility for the Financial Statements***

The Board of Directors (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 auditors consider 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 Hudson Troy Towers Apartment Corporation as of December 31, 2013, 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.

## **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 16 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.

## **Opinion on Other Supplementary Information**

Our audit as of and for the year ended December 31, 2013 was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 17 through 19 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. We have also previously audited in accordance with auditing standards generally accepted in the United States of America the financial statements of the Corporation as of and for the year ended December 31, 2012. In our opinion, the supplementary information on pages 17 through 19 for the year ended December 31, 2012 is fairly stated in all material respects in relation to the financial statements from which it has been derived.



East Brunswick, New Jersey

May 20, 2014

**Hudson Troy Towers Apartment Corporation**  
**Balance Sheet**  
**December 31, 2013**

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	<u>Total</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,094,384	\$ 580,864	\$ 2,513,520
Mortgage escrow - restricted cash and certificates of deposit	286,727	286,727	-
Tenant-shareholder maintenance fees receivable, net of allowance for doubtful accounts of \$180,970	179,784	179,784	-
Prepaid insurance	30,071	30,071	-
Tenant security - restricted cash	61,856	61,856	-
Mortgage acquisition costs, net of accumulated amortization of \$13,939	37,527	37,527	-
Property and equipment, net	<u>5,507,764</u>	<u>5,507,764</u>	<u>-</u>
<b>Total Assets</b>	<u><u>\$ 9,198,113</u></u>	<u><u>\$ 6,684,593</u></u>	<u><u>\$ 2,513,520</u></u>

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

**Hudson Troy Towers Apartment Corporation**  
**Balance Sheet**  
**December 31, 2013**

	<u>Total</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities</b>			
Accounts payable and accrued expenses	\$ 314,258	\$ 195,973	\$ 118,285
Accrued mortgage interest payable	14,641	14,641	-
Tenant-shareholder maintenance fees received in advance	176,326	176,326	-
Federal and state taxes payable	83,696	83,696	-
Deferred rental income	37,715	-	37,715
Tenant security deposits	72,418	72,418	-
Mortgage note payable	4,671,143	4,671,143	-
	<u>5,370,197</u>	<u>5,214,197</u>	<u>156,000</u>
<b>Total Liabilities</b>			
<b>Commitment/Contingency</b>			
<b>Shareholders' Equity</b>			
Common stock, \$1 par value, 145,200 shares authorized and 137,227 issued	137,227	137,227	-
Paid-in capital	3,530,689	3,530,689	-
Operating deficit	(2,137,205)	(2,137,205)	-
Replacement fund balance	2,357,520	-	2,357,520
Treasury stock, 536 shares, at cost	(60,315)	(60,315)	-
	<u>3,827,916</u>	<u>1,470,396</u>	<u>2,357,520</u>
<b>Total Shareholders' Equity</b>			
<b>Total Liabilities and Shareholders' Equity</b>			
	<u>\$ 9,198,113</u>	<u>\$ 6,684,593</u>	<u>\$ 2,513,520</u>

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

**Hudson Troy Towers Apartment Corporation**  
**Statement of Revenues and Expenses**  
**For the Year Ended December 31, 2013**

	<u>Total</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
<b>Revenues</b>			
Real estate taxes	\$ 1,589,999	\$ 1,589,999	\$ -
Tenant - shareholder maintenance fees	1,324,141	1,324,141	-
Energy costs	724,527	724,527	-
Capital contribution fees	567,500	-	567,500
Commercial rental income	542,253	533,682	8,571
Parking income	437,230	437,230	-
Cable income	114,386	114,386	-
Other income	106,212	106,212	-
Late fee and legal collections income	66,525	66,525	-
Gym room income	33,267	33,267	-
Insurance recovery	17,101	17,101	-
Guest parking income	16,943	16,943	-
Pool income	11,082	11,082	-
Storage room income	9,346	9,346	-
Investment income	2,187	236	1,951
	<u>5,562,699</u>	<u>4,984,677</u>	<u>578,022</u>
<b>Expenses</b>			
Administrative	2,381,544	2,381,544	-
Building and maintenance operations	508,510	508,510	-
Utilities	772,418	772,418	-
Payroll	849,641	849,641	-
	<u>4,512,113</u>	<u>4,512,113</u>	<u>-</u>
<b>Excess of Revenues over Expenses before Depreciation and Amortization</b>	1,050,586	472,564	578,022
<b>Depreciation and Amortization</b>	<u>353,201</u>	<u>353,201</u>	<u>-</u>
<b>Excess of Revenues over Expenses after Depreciation and Amortization</b>	<u>\$ 697,385</u>	<u>\$ 119,363</u>	<u>\$ 578,022</u>

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

**Hudson Troy Towers Apartment Corporation**  
**Statement of Changes in Shareholders' Equity**  
**For the Year Ended December 31, 2013**

	Operating Fund						Replacement Fund
	Total	Total Operating Fund	Common Stock	Treasury Stock	Paid-In Capital	Operating Surplus (Deficit)	
Shareholders' Equity - Beginning of Year	\$ 3,130,531	\$ 824,907	\$ 137,227	\$ (60,315)	\$ 3,530,689	\$ (2,782,694)	\$ 2,305,624
Interfund transfers - net	-	526,126	-	-	-	526,126	(526,126)
Excess of Revenues over Expenses	697,385	119,363	-	-	-	119,363	578,022
Shareholders' Equity - End of Year	<u>\$ 3,827,916</u>	<u>\$ 1,470,396</u>	<u>\$ 137,227</u>	<u>\$ (60,315)</u>	<u>\$ 3,530,689</u>	<u>\$ (2,137,205)</u>	<u>\$ 2,357,520</u>

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

**Hudson Troy Towers Apartment Corporation**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2013**

	<u>Total</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
<b>Cash Flows from Operating Activities</b>			
Excess of revenues over expenses	\$ 697,385	\$ 119,363	\$ 578,022
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities			
Depreciation and amortization	353,201	353,201	-
Bad debt	20,500	20,500	-
Changes in assets and liabilities			
Mortgage escrow - restricted cash	249,929	249,929	-
Tenant - shareholder maintenance fees receivable	(122,884)	(122,884)	-
Prepaid insurance	13,174	13,174	-
Tenant security - restricted cash	(32,250)	(32,250)	-
Accounts payable and accrued expenses	(75,636)	(50,315)	(25,321)
Accrued mortgage note interest payable	(1,369)	(1,369)	-
Tenant - shareholder maintenance fees received in advance	145,350	145,350	-
Federal and state taxes payable	43,105	43,105	-
Deferred rental income	(8,000)	-	(8,000)
Tenant security deposits	39,273	39,273	-
<b>Net Cash Provided by Operating Activities</b>	<u>1,321,778</u>	<u>777,077</u>	<u>544,701</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of certificates of deposit	(250,000)	(250,000)	-
Maturity of certificates of deposit	500,028	-	500,028
Additions to property and equipment	(575,848)	(575,848)	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>(325,820)</u>	<u>(825,848)</u>	<u>500,028</u>

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

**Hudson Troy Towers Apartment Corporation**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2013**

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	<u>Total</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
<b>Cash Flows from Financing Activities</b>			
Interfund transfers - net	-	526,126	(526,126)
Principal payment made on mortgage note payable	<u>(436,714)</u>	<u>(436,714)</u>	<u>-</u>
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>(436,714)</u>	<u>89,412</u>	<u>(526,126)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	559,244	40,641	518,603
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>2,535,140</u>	<u>540,223</u>	<u>1,994,917</u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 3,094,384</u></u>	<u><u>\$ 580,864</u></u>	<u><u>\$ 2,513,520</u></u>
<b>Supplemental Disclosure</b>			
Cash Paid During the Year for			
Interest	<u>\$ 181,157</u>		
Income taxes	<u><u>\$ 154,908</u></u>		

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

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 1 Nature of Organization**

The Hudson Troy Towers Apartment Corporation (the "Corporation"), located in Union City, New Jersey, is a cooperative housing corporation incorporated under Title 14 of the New Jersey Statutes. The purposes of the Corporation are to own title to the building and property known as Hudson Troy Towers, to enter into proprietary leases for the apartments and to provide for the maintenance of common elements. The Corporation consists of 315 apartments, 5,600 square feet of commercial space and a multi-level parking structure containing 341 spaces. Recreational facilities include a swimming pool and a gym.

**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 Directors (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 Corporation's legal documents provide limited guidelines to govern the Corporation's financial activities. In order to ensure observance of the limitations and restrictions placed on the use of resources available to the Corporation by such documents, and as designated by the Board, the accounts of the Corporation are maintained in accordance with the principles of fund accounting.

The assets, liabilities, income and expenses and fund balances of the Corporation are reported in the following fund groups:

**Operating Fund**

This fund represents the portion of expendable funds available for general operations of the Corporation.

**Replacement Fund**

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

**Cash, Cash Equivalents and Certificates of Deposit**

All highly liquid financial instruments with a maturity date of 90 days or less when purchased are considered to be cash and cash equivalents. Cash, cash equivalents and certificates of deposit are held in bank deposit accounts which, at times, may exceed federally insured limits.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 2 Summary of Significant Accounting Policies (Continued)**

**Maintenance Fees/Tenant-Shareholder Maintenance Fees Receivable**

Tenant-Shareholders are subject to monthly maintenance fees (which includes tenant shareholder maintenance fees, real estate taxes, energy cost, capital contribution fees, parking income and cable income) to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess maintenance fees at year end are retained by the Corporation for use in the succeeding year. Tenant-Shareholder receivables at the balance sheet date represent maintenance fees due from tenant-shareholders. According to the By-laws, the Corporation shall, at all times, have a first lien upon the shares of each shareholder to secure the payment by such shareholder. The Board's intention is to reacquire shares of stock relating to severely delinquent units and sell them to recover the delinquent fees, if other collection actions are unsuccessful. The Board established an allowance for doubtful accounts in excess of estimated market value of the shares.

**Property and Equipment**

Property and equipment is recorded at cost and is depreciated on a straight-line and accelerated basis as follows:

Building	15 years
Building improvements	15 - 27.5 years
Furniture, fixtures and equipment	5 - 10 years

**Mortgage Acquisition Costs**

Mortgage acquisition costs incurred at the time the mortgage note was obtained are being amortized on a straight line basis, (which approximates the yield method) over the life of the loan, which is 12 years.

**Treasury Stock**

Treasury stock, valued at the cost, represents shares on apartments reacquired by the Corporation. The 536 treasury shares represent one apartment unit that is occupied by the superintendent.

**Commercial Revenue Recognition/ Deferred Rental Income**

Rental income received from tenants with leases having sign on bonuses and scheduled increases are recognized on a straight line basis over the term of the lease.

**Investment Income Earned**

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

**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.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 3      Certificates of Deposit**

The Corporation holds a certificate of deposit, recorded at cost, which approximate fair value at December 31, 2013, with interest rates of 0.50%. The certificate of deposit is scheduled to mature in March 2014 and is intended to be held until maturity.

Fair value is measured on a recurring basis based on quoted prices in an active market (all Level 1 measurements).

**Note 4      Property and Equipment**

Property and equipment, net consist of the following:

Land	\$ 1,058,382
Building	6,658,687
Building improvements	9,885,572
Equipment	<u>574,028</u>
Total Property and Equipment	18,176,669
Less: accumulated depreciation	<u>(12,668,905)</u>
Property and Equipment, Net	<u>\$ 5,507,764</u>

**Note 5      Federal and State Income Taxes**

Cooperative housing corporations are subject to federal corporate income taxes under Subchapter T of the Internal Revenue Code. Subchapter T provides that expenses attributable to the generation of patronage income, i.e. income from business done with or for patrons (tenant-shareholders) is deductible only to the extent of patronage income. The Corporation's non-patronage income, i.e. commercial rental income, net of allocable non-patronage expenses, is subject to federal and State of New Jersey income taxes. For the year ended December 31, 2013, federal and state income taxes have been provided based on the excess of non-patronage income over non-patronage expenses.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 5 Federal and State Income Taxes (Continued)**

Federal and state taxes relating to patronage income have not been provided for the year ended December 31, 2013 as the Corporation has a patronage tax basis loss in the current year. At December 31, 2013, the Corporation had approximately \$4,400,000 in federal patronage net operating loss carryforwards and approximately \$1,700,000 in New Jersey patronage net operating loss carryforwards. The federal net operating loss carryforwards at December 31, 2013 will expire between the years 2014 and 2029 and the state net operating loss carryforwards at December 31, 2013 will expire between the years 2014 and 2020. A full valuation allowance has been provided for the deferred tax asset arising from the net operating loss carryforwards. The Corporation evaluates its tax provisions and accruals and believes that they are appropriate based on current facts and circumstances. The prior three years federal and state tax returns as filed remain open for examination by the respective taxing authorities.

**Note 6 Mortgage Note Payable**

In December 2010, the Corporation refinanced the mortgage note and borrowed an additional \$876,913 for a total mortgage note payable of \$6,000,000. The mortgage note payable is collateralized by the land, building and building improvements. The Corporation pays monthly principal and interest payments of \$51,489 at a fixed interest rate of 3.64% for 12 years.

The bank requires the Corporation to maintain a mortgage escrow cash account, equal to one month's current maintenance fees. In the event the Corporation uses any of these funds, the Board must provide for the replenishment of these funds in subsequent budget years. No replenishment was required at December 31, 2013.

Principal payments for the next 5 years and thereafter are as follows:

Year Ending <u>December 31,</u>	
2014	\$ 455,750
2015	472,619
2016	490,112
2017	508,253
2018	527,065
Thereafter	<u>2,217,344</u>
Total	<u>\$ 4,671,143</u>

Interest expense for the year ended December 31, 2013 was \$179,788.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 7      Replacement Fund**

The Corporation's governing documents provide limited guidelines to govern the Corporation's financial activities regarding the accumulation for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

In September 2010, Kipcon Engineering, professional engineering consultants, conducted a study, 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 a full study. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. The Board is utilizing the full funding method with a 30 year average annual contribution plus an additional \$189,482 of shareholder assessments for a total shareholders' allocation of \$567,500. In addition, the Board allocated \$8,571 of commercial income, and \$1,951 of investment income to the replacement fund.

Funds are being accumulated in the replacement fund based upon estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Additionally, replacement fund cash and investment 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 Corporation has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available, if possible.

**Note 8      Interfund Transfers - Net**

During 2013, \$575,848 of capital expenditures were added to property and equipment in the operating fund and is being depreciated over its estimated useful lives. These expenditures were paid utilizing the replacement fund cash balances. This transaction was recorded as an interfund transfer in the statement of changes in shareholders' equity.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 8 Interfund Transfer - Net (Continued)**

The capital improvements made during 2013 are detailed as follows:

Facade	\$ 383,800
Lobby improvements - 1 <sup>st</sup> Floor	98,998
Garage and terrace	67,774
Fence	10,700
Fitness equipment	6,214
Engineering	6,762
Irrigation	<u>1,600</u>
 Total	 <u>\$ 575,848</u>

The Board approved an interfund transfer from the operating fund to the replacement fund in the amount of \$40,000. This amount represents the difference between the year ended December 31, 2012 budgeted and actual operating contingency expense.

In addition, the Board approved a second interfund transfer from the operating fund to the replacement fund in the amount of \$9,722. This amount represents a cash transfer made during the year

**Note 9 Commercial Rental Income**

The Corporation receives commercial rental income from 14 tenants. The non-cancellable leases expire on various dates from February 2014 through April 2021. Minimum base rents not considering lease renewals as of December 31, 2013, are as follows:

2014	\$ 489,429
2015	260,967
2016	104,541
2017	104,298
2018	90,994
Thereafter	<u>104,287</u>
 Total	 <u>\$ 1,154,516</u>

**Note 10 Contingency**

During 2011, the Corporation filed a lawsuit against a shareholder to enforce its rules and regulations relating to the Corporation's "No Dogs Allowed" policy. A decision was rendered in favor of the Corporation and it was awarded approximately \$96,000 to cover the legal fees and court fees incurred. As of December 31, 2013, the Corporation has not received the settlement proceeds and will record them if, and when, received.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2013**

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**Note 11 Union Agreement**

The Corporation has a collective bargaining agreement with International Brotherhood of Teamsters, Local 11, which details rates of pay, hours of work and conditions of employment for those covered employees. Approximately 50% of employees are covered by the union agreement. These employees are covered by a union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plan.

Contributions to the plan are determined in accordance with the provisions of the negotiated labor contract. The contract is in effect through December 2016.

Pursuant to the Employee Retirement Income Security Act, as amended, an employer, upon withdrawing from a multiemployer plan, is required to pay its share of the plan's unfunded vested benefits. The Corporation has no intention of withdrawing from the plan, at this time.

The plan information for International Brotherhood of Teamsters, Local 11 multiemployer defined benefit plan is as follows:

Union Plan Employer ID #:	22-6172223
Year End Date of Plan:	March 31, 2012
Certified Pension Zone Status:	Red
2013 Pension Contributions Made:	\$18,686

A Funding Improvement Plan or Rehabilitation Plan (as defined by ERISA) is pending.

Certified pension zone status (as defined by the Pension Protection Act) represents the level at which the plan is funded. Plans in the red zone are less than 65% funded; plans in the yellow zone are less than 80% funded; and plans in the green zone are greater than 80% funded.

**Note 12 Commitment/Other Matters**

The Corporation is involved in an ongoing facade project with Valcourt. The Corporation is in the process of negotiating with Valcourt on a contract amount for the next phase which is presumed to commence in the spring of 2014.

The Corporation is in the process of obtaining proposals for the renovations of the parking deck and HVAC risers. The cost of these capital expenditures is unknown at this time. If funds are needed, the Corporation has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available, if possible.

## SUPPLEMENTARY INFORMATION

**Hudson Troy Towers Apartment Corporation**  
**Schedule of Information on Future Major Repairs and Replacements**  
**December 31, 2013**

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Kipcon Engineering, professional engineering consultants, conducted a study in September 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 study and presents significant information about the components of common property.

<u>Components</u>	As of 2010 Schedule (Unaudited)	
	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Then Current Replacement Costs</u>
Sitework	2-15	\$ 72,440
Waterproofing	5-9	484,287
Interior finishes	2-25	706,909
Special construction	3-11	230,158
Electrical	5-19	241,204
Mechanical	1-24	<u>2,967,193</u>
Total		<u>\$ 4,702,191</u>
Replacement fund balance as of December 31, 2013		<u>\$ 2,357,520</u>

**Hudson Troy Towers Apartment Corporation**  
**Schedule of Total Revenues, Operating Expenses and Allocations to the Replacement**  
**Fund Including Mortgage Principal Payments and Excluding Depreciation and**  
**Amortization as Compared to Budget**  
**For the Year Ended December 31, 2013**  
**With Comparative Totals for 2012**

	2013		2012
	Actual	(Unaudited) Budget	Actual
<b>Revenues</b>			
Real estate taxes	\$ 1,589,999	\$ 1,590,000	\$ 1,589,999
Tenant - shareholder maintenance fees	1,324,141	1,324,140	1,306,169
Energy costs	724,527	724,528	752,500
Capital contribution fees	567,500	567,500	557,500
Commercial rental income	542,253	417,915	430,355
Parking income	437,230	425,250	451,138
Cable income	114,386	114,386	128,761
Other income	106,212	42,900	87,333
Late fee and legal collections income	66,525	29,000	37,137
Gym room income	33,267	29,000	29,133
Insurance recovery	17,101	-	1,238
Guest parking income	16,943	10,000	19,130
Pool income	11,082	10,000	10,212
Storage room income	9,346	9,500	9,912
Investment income	2,187	425	5,778
<b>Total Revenues</b>	<b>5,562,699</b>	<b>5,294,544</b>	<b>5,416,295</b>
<b>Operating Expenses</b>			
<b>Administrative</b>			
Real estate taxes	1,590,000	1,590,000	1,552,429
Federal and state income taxes	198,013	28,800	61,816
Mortgage interest	179,788	181,157	196,187
Management services	150,200	154,706	150,199
Insurance	146,661	146,661	134,534
Legal	39,973	45,000	32,039
Office	20,884	23,000	13,816
Bad debt	20,500	-	13,875
Audit	9,300	9,300	9,000
Licenses and permits	5,433	10,000	7,848
Social and recreation expenses	6,834	6,290	6,190
Miscellaneous	6,741	6,741	6,067
Office equipment	5,217	5,500	4,562
Miscellaneous	2,000	2,750	2,655
<b>Total Administrative</b>	<b>2,381,544</b>	<b>2,209,905</b>	<b>2,191,217</b>

**Hudson Troy Towers Apartment Corporation**  
**Schedule of Total Revenues, Operating Expenses and Allocations to the Replacement**  
**Fund Including Mortgage Principal Payments and Excluding Depreciation and**  
**Amortization as Compared to Budget**  
**For the Year Ended December 31, 2013**  
**With Comparative Totals for 2012**

	2013		2012
	Actual	(Unaudited) Budget	Actual
<b>Operating Expenses (Continued)</b>			
<b>Building and Maintenance Operations</b>			
Cable	115,060	114,386	131,167
Supplies	84,292	87,000	95,923
Elevator	69,697	37,100	34,963
HVAC - repairs	66,600	18,000	43,512
Repairs - emergency	64,319	30,000	-
Repairs - general	43,568	110,000	123,553
Pool expenses	25,435	22,000	16,078
Landscaping	11,345	6,000	3,477
Water treatment services	8,377	9,750	8,483
Fire prevention	7,902	8,500	8,337
Uniforms	6,477	4,000	2,967
Exterminating	5,438	10,000	10,206
Insurance claim	-	-	14,818
Storm damage repairs	-	-	8,251
Painting	-	-	3,692
<b>Total Building and Maintenance Operations</b>	<b>508,510</b>	<b>456,736</b>	<b>505,427</b>
<b>Utilities</b>			
Electricity	268,147	301,367	284,480
Water and sewer	251,778	205,412	197,458
Fuel and gas	245,327	240,000	209,094
Telephone	7,166	9,116	5,110
<b>Total Utilities</b>	<b>772,418</b>	<b>755,895</b>	<b>696,142</b>
<b>Payroll</b>			
Salaries and wages	641,708	612,000	641,333
Employee benefits	115,944	118,655	113,891
Payroll taxes	56,049	61,200	59,212
Workers' compensation	35,940	35,940	40,319
<b>Total Payroll</b>	<b>849,641</b>	<b>827,795</b>	<b>854,755</b>
<b>Operating Contingency</b>	<b>-</b>	<b>40,000</b>	<b>-</b>

**Hudson Troy Towers Apartment Corporation**  
**Schedule of Total Revenues, Operating Expenses and Allocations to the Replacement**  
**Fund Including Mortgage Principal Payments and Excluding Depreciation and**  
**Amortization as Compared to Budget**  
**For the Year Ended December 31, 2013**  
**With Comparative Totals for 2012**

	2013		2012
	Actual	(Unaudited) Budget	Actual
<b>Replacement Fund</b>			
Tenant - shareholders' maintenance fees allocated to replacement fund	567,500	567,500	557,500
Commercial income allocated to the replacement fund	8,571	-	8,571
Investment income allocated to replacement fund	1,951	-	5,704
<b>Total Allocations to the Replacement Fund</b>	<u>578,022</u>	<u>567,500</u>	<u>571,775</u>
<b>Total Operating Expenses and Allocations to the Replacement Fund</b>	<u>5,090,135</u>	<u>4,857,831</u>	<u>4,819,316</u>
<b>Excess of Revenues Over Operating Expenses and Allocations to the Replacement Fund before Mortgage Principal Payments</b>	472,564	436,713	596,979
<b>Mortgage Principal Payments</b>	<u>436,714</u>	<u>436,713</u>	<u>420,367</u>
<b>Excess of Revenues Over Operating Expenses and Allocations to Replacement Fund Including Mortgage Principal Payments and Excluding Depreciation and Amortization Expense</b>	<u>\$ 35,850</u>	<u>\$ -</u>	<u>\$ 176,612</u>