

**Hudson Troy Towers Apartment Corporation**  
**Financial Statements**  
**December 31, 2014**



# Hudson Troy Towers Apartment Corporation

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December 31, 2014

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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, 2014 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, 2014, 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, 2014 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, 2013. In our opinion, the supplementary information on pages 17 through 19 for the year ended December 31, 2013 is fairly stated in all material respects in relation to the financial statements from which it has been derived.



East Brunswick, New Jersey

August 14, 2015

**Hudson Troy Towers Apartment Corporation**  
**Balance Sheet**  
**December 31, 2014**

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|  | <u>Total</u>        | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> |
|--|---------------------|---------------------------|-----------------------------|
| <b>Assets</b>  |                     |                           |                             |
| Cash and cash equivalents  | \$ 2,792,198        | \$ 54,006                 | \$ 2,738,192                |
| Mortgage escrow - restricted<br>money market fund  | 287,350             | 287,350                   | -                           |
| Tenant-shareholder maintenance fees<br>and commercial rental income receivables, net<br>of allowance for doubtful<br>accounts of \$155,000 | 356,142             | 356,142                   | -                           |
| Other receivable   | 17,665              | 17,665                    | -                           |
| Prepaid expenses   | 102,841             | 102,841                   | -                           |
| Tenant security - restricted cash  | 61,928              | 61,928                    | -                           |
| Mortgage acquisition costs, net of<br>accumulated amortization of \$18,228   | 33,238              | 33,238                    | -                           |
| Property and equipment, net  | 5,541,973           | 5,541,973                 | -                           |
| Interfund balances   | -                   | (62,688)                  | 62,688                      |
|  | <u>          </u>   | <u>          </u>         | <u>          </u>           |
| <b>Total Assets</b>  | <u>\$ 9,193,335</u> | <u>\$ 6,392,455</u>       | <u>\$ 2,800,880</u>         |

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

**Hudson Troy Towers Apartment Corporation**  
**Balance Sheet**  
**December 31, 2014**

|  | <u>Total</u>               | <u>Operating<br/>Fund</u>  | <u>Replacement<br/>Fund</u> |
|--|----------------------------|----------------------------|-----------------------------|
| <b>Liabilities and Shareholders' Equity</b>                                  |                            |                            |                             |
| <b>Liabilities</b>   |                            |                            |                             |
| Accounts payable and accrued expenses  | \$ 313,587                 | \$ 222,102                 | \$ 91,485                   |
| Accrued mortgage interest payable  | 12,757                     | 12,757                     | -                           |
| Tenant-shareholder maintenance fees<br>received in advance                   | 46,958                     | 46,958                     | -                           |
| Other liabilities  | 2,661                      | 2,661                      | -                           |
| Deferred rental income   | 29,143                     | -                          | 29,143                      |
| Tenant security deposits   | 95,610                     | 95,610                     | -                           |
| Mortgage note payable  | 4,219,103                  | 4,219,103                  | -                           |
| <b>Total Liabilities</b>   | <u>4,719,819</u>           | <u>4,599,191</u>           | <u>120,628</u>              |
| <b>Commitment/Contingency</b>  |                            |                            |                             |
| <b>Shareholders' Equity</b>  |                            |                            |                             |
| Common stock, \$1 par value, 145,200<br>shares authorized and 137,227 issued | 137,227                    | 137,227                    | -                           |
| Paid-in capital  | 3,530,689                  | 3,530,689                  | -                           |
| Operating deficit  | (1,814,337)                | (1,814,337)                | -                           |
| Replacement fund balance   | 2,680,252                  | -                          | 2,680,252                   |
| Treasury stock, 536 shares, at cost  | (60,315)                   | (60,315)                   | -                           |
| <b>Total Shareholders' Equity</b>  | <u>4,473,516</u>           | <u>1,793,264</u>           | <u>2,680,252</u>            |
| <b>Total Liabilities and<br/>Shareholders' Equity</b>                        | <u><u>\$ 9,193,335</u></u> | <u><u>\$ 6,392,455</u></u> | <u><u>\$ 2,800,880</u></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, 2014**

|  | <u>Total</u>      | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> |
|--|-------------------|---------------------------|-----------------------------|
| <b>Revenues</b>  |                   |                           |                             |
| Real estate taxes  | \$ 1,636,058      | \$ 1,636,058              | \$ -                        |
| Tenant - shareholder maintenance fees  | 1,232,267         | 1,107,267                 | 125,000                     |
| Energy costs   | 769,571           | 769,571                   | -                           |
| Commercial rental income   | 621,302           | 612,730                   | 8,572                       |
| Capital contribution fees  | 567,500           | -                         | 567,500                     |
| Parking income   | 419,389           | 419,389                   | -                           |
| Cable income   | 115,779           | 115,779                   | -                           |
| Other income   | 108,862           | 108,862                   | -                           |
| Insurance proceeds, net of expenses<br>of approximately \$220,000                    | 46,260            | 46,260                    | -                           |
| Late fee and legal collections income  | 41,336            | 41,336                    | -                           |
| Gym room income  | 35,340            | 35,340                    | -                           |
| Guest parking income   | 14,115            | 14,115                    | -                           |
| Storage room income  | 9,723             | 9,723                     | -                           |
| Investment income  | 1,632             | 959                       | 673                         |
| Pool income  | 1,117             | 1,117                     | -                           |
|  | <u>5,620,251</u>  | <u>4,918,506</u>          | <u>701,745</u>              |
| <b>Total Revenues</b>  |                   |                           |                             |
| <b>Expenses</b>  |                   |                           |                             |
| Administrative   | 2,352,401         | 2,352,401                 | -                           |
| Building and maintenance operations  | 492,107           | 492,107                   | -                           |
| Utilities  | 920,573           | 920,573                   | -                           |
| Payroll  | 860,477           | 860,477                   | -                           |
|  | <u>4,625,558</u>  | <u>4,625,558</u>          | <u>-</u>                    |
| <b>Total Expenses</b>  |                   |                           |                             |
| <b>Excess of Revenues over<br/>Expenses before Depreciation<br/>and Amortization</b> | 994,693           | 292,948                   | 701,745                     |
| <b>Depreciation and Amortization</b>   | <u>349,093</u>    | <u>349,093</u>            | <u>-</u>                    |
| <b>Excess (Deficiency) of Revenues over<br/>Expenses</b>                             | <u>\$ 645,600</u> | <u>\$ (56,145)</u>        | <u>\$ 701,745</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, 2014**

|   | Operating Fund      |                      |                   |                    |                     |                             | Replacement Fund    |
|---|---------------------|----------------------|-------------------|--------------------|---------------------|-----------------------------|---------------------|
|   | Total               | Total Operating Fund | Common Stock      | Treasury Stock     | Paid-In Capital     | Operating Surplus (Deficit) |                     |
| Shareholders' Equity - Beginning of Year      | \$ 3,827,916        | \$ 1,470,396         | \$ 137,227        | \$ (60,315)        | \$ 3,530,689        | \$ (2,137,205)              | \$ 2,357,520        |
| Interfund Transfer                            | -                   | 379,013              | -                 | -                  | -                   | 379,013                     | (379,013)           |
| Excess (Deficiency) of Revenues over Expenses | 645,600             | (56,145)             | -                 | -                  | -                   | (56,145)                    | 701,745             |
| Shareholders' Equity - End of Year            | <u>\$ 4,473,516</u> | <u>\$ 1,793,264</u>  | <u>\$ 137,227</u> | <u>\$ (60,315)</u> | <u>\$ 3,530,689</u> | <u>\$ (1,814,337)</u>       | <u>\$ 2,680,252</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, 2014**

|   | <u>Total</u>     | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> |
|---|------------------|---------------------------|-----------------------------|
| <b>Cash Flows from Operating Activities</b>   |                  |                           |                             |
| Excess (deficiency) of revenues over expenses   | \$ 645,600       | \$ (56,145)               | \$ 701,745                  |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities |                  |                           |                             |
| Depreciation and amortization   | 349,093          | 349,093                   | -                           |
| Changes in assets and liabilities   |                  |                           |                             |
| Tenant - shareholder maintenance fees and commercial rental income receivables  | (176,358)        | (176,358)                 | -                           |
| Other receivable  | (17,665)         | (17,665)                  | -                           |
| Prepaid expenses  | (72,770)         | (72,770)                  | -                           |
| Tenant security - restricted cash   | (72)             | (72)                      | -                           |
| Accounts payable and accrued expenses   | (671)            | 26,129                    | (26,800)                    |
| Accrued mortgage note interest payable  | (1,884)          | (1,884)                   | -                           |
| Tenant - shareholder maintenance fees received in advance   | (129,368)        | (129,368)                 | -                           |
| Other liabilities   | 2,661            | 2,661                     | -                           |
| Deferred rental income  | (8,572)          | -                         | (8,572)                     |
| Tenant security deposits  | 23,192           | 23,192                    | -                           |
| Federal and state taxes payable   | (83,696)         | (83,696)                  | -                           |
| <b>Net Cash Provided by (Used in) Operating Activities</b>  | <u>529,490</u>   | <u>(136,883)</u>          | <u>666,373</u>              |
| <b>Cash Flows from Investing Activities</b>   |                  |                           |                             |
| Maturities of certificates of deposit   | 286,727          | 286,727                   | -                           |
| Purchases of money market fund  | (287,350)        | (287,350)                 | -                           |
| Additions to property and equipment   | (379,013)        | (379,013)                 | -                           |
| <b>Net Cash Used in Investing Activities</b>  | <u>(379,636)</u> | <u>(379,636)</u>          | <u>-</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, 2014**

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|   | <u>Total</u>               | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> |
|---|----------------------------|---------------------------|-----------------------------|
| <b>Cash Flows from Financing Activities</b>                     |                            |                           |                             |
| Interfund transfer  | -                          | 379,013                   | (379,013)                   |
| Changes in interfund balances                                   | -                          | 62,688                    | (62,688)                    |
| Principal payment made on mortgage<br>note payable              | <u>(452,040)</u>           | <u>(452,040)</u>          | <u>-</u>                    |
| <b>Net Cash Used in<br/>Financing Activities</b>                | <u>(452,040)</u>           | <u>(10,339)</u>           | <u>(441,701)</u>            |
| <b>Net Increase (Decrease) in Cash<br/>and Cash Equivalents</b> | (302,186)                  | (526,858)                 | 224,672                     |
| <b>Cash and Cash Equivalents -<br/>Beginning of Year</b>        | <u>3,094,384</u>           | <u>580,864</u>            | <u>2,513,520</u>            |
| <b>Cash and Cash Equivalents -<br/>End of Year</b>              | <u><u>\$ 2,792,198</u></u> | <u><u>\$ 54,006</u></u>   | <u><u>\$ 2,738,192</u></u>  |
| <b>Supplemental Disclosure</b>                                  |                            |                           |                             |
| Cash Paid During the Year for                                   |                            |                           |                             |
| Income taxes  | <u>\$ 274,750</u>          |                           |                             |
| Interest  | <u>\$ 164,764</u>          |                           |                             |

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

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**Note 1 Nature of Organization**

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 and Cash Equivalents**

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

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

**Maintenance Fees and Other Charges/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) based on an annual budget as determined by the Board 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 relating to one shareholder whose balance exceeds the estimated market value.

**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 (see Note 13).

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**Note 3      Prepaid Expenses**

Prepaid expenses consist of the following at December 31, 2014:

|                                |    |                |
|--------------------------------|----|----------------|
| Federal and state income taxes | \$ | 86,693         |
| Insurance                      |    | 13,472         |
| Miscellaneous                  |    | <u>2,676</u>   |
| Total Prepaid Expenses         | \$ | <u>102,841</u> |

**Note 4      Property and Equipment**

Property and equipment, net consist of the following:

|                                |    |                     |
|--------------------------------|----|---------------------|
| Land                           | \$ | 1,058,382           |
| Building                       |    | 6,658,687           |
| Building improvements          |    | 10,264,585          |
| Equipment                      |    | <u>574,028</u>      |
| Total Property and Equipment   |    | 18,555,682          |
| Less: accumulated depreciation |    | <u>(13,013,709)</u> |
| Property and Equipment, Net    | \$ | <u>5,541,973</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 Cooperation'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, 2014, federal and state income taxes of approximately \$104,000 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, 2014**

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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, 2014 as the Corporation has a patronage tax basis loss in the current year. At December 31, 2014, the Corporation had approximately \$6,040,000 in federal patronage net operating loss carryforwards and approximately \$2,447,000 in New Jersey patronage net operating loss carryforwards. The federal net operating loss carryforwards at December 31, 2014 will expire between the years 2015 and 2030 and the state net operating loss carryforwards at December 31, 2014 will expire between the years 2015 and 2021. 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 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 mortgage does not have a prepayment penalty

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, 2014.

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

| Year Ending<br><u>December 31,</u> |                     |
|------------------------------------|---------------------|
| 2015                               | \$ 472,619          |
| 2016                               | 490,112             |
| 2017                               | 508,253             |
| 2018                               | 527,065             |
| 2019                               | 546,574             |
| Thereafter                         | <u>1,674,480</u>    |
| Total                              | <u>\$ 4,219,103</u> |

Interest expense for the year ended December 31, 2014 was \$163,947.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2014**

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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 was updated in March 2015, to be retroactively effective January 1, 2015 by The Falcon Engineering Group. The 2015 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 2015 study.

During the year ended December 31, 2014, the Board funded for major repairs and replacements based on the 2010 study's estimates of the then current replacement costs, considering amounts previously accumulated in the replacement fund. The Board utilized the full funding methodology with a 30 year average annual contribution plus an additional \$324,561 of capital contributions for a total allocation of \$692,500. In addition, the Board allocated \$8,572, which represents a portion of the initial laundry sign on bonus, and \$673 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 tenant-shareholder maintenance fees, pass special assessments, increase borrowings, or delay major repairs and replacements until funds are available, if possible.

**Note 8      Interfund Transfer**

During 2014, \$379,013 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, 2014**

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**Note 8 Interfund Transfer (Continued)**

The capital improvements made during 2014 are detailed as follows:

|   |                   |
|---|-------------------|
| Facade                                    | \$ 217,092        |
| Garage                                    | 44,703            |
| HVAC riser                                | 58,760            |
| Engineering                               | 42,312            |
| Lobby and Hallway - 1 <sup>st</sup> Floor | 14,409            |
| Staircase                                 | <u>1,737</u>      |
| Total                                     | <u>\$ 379,013</u> |

**Note 9 Commercial Rental Income**

The Corporation receives commercial rental income from 14 tenants. The non-cancellable leases expire on various dates from March 2015 through December 2019. Minimum base rents not considering lease renewals as of December 31, 2014, are as follows:

|       |                     |
|-------|---------------------|
| 2015  | \$ 534,242          |
| 2016  | 487,846             |
| 2017  | 294,465             |
| 2018  | 58,946              |
| 2019  | <u>42,994</u>       |
| Total | <u>\$ 1,418,493</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, 2014, the Corporation has not received the settlement proceeds and will record them if, and when, received.

**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 75% 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.

**Hudson Troy Towers Apartment Corporation**  
**Notes to the Financial Statements**  
**December 31, 2014**

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**Note 11 Union Agreement (Continued)**

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, 2014 |
| Certified Pension Zone Status:   | Red            |
| 2014 Pension Contributions Made: | \$18,900       |

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 Insurance Claims**

During the year, the Corporation had multiple insurance claims relating to broken water pipes. The Corporation received approximately \$266,000 of insurance proceeds and incurred approximately \$220,000 of repairs from third party vendors. As of December 31, 2014, all of the repairs have been made.

**Note 13 Subsequent Events/Commitment**

The Corporation had the following subsequent events.

- In February 2015 the Corporation commenced renovations on the HVAC risers. The total contract amount is approximately \$3,800,000 plus engineering costs not to exceed 6% of the contract amount.
- As to the date of the auditors' report the Board is in the process of obtaining proposals on the garage renovations. The estimated cost of the renovations is approximately \$8,300,000 plus engineering fees not to exceed 6% of the total contract amount.

If funds are needed, the Corporation has the right to increase tenant-shareholder maintenance fees, pass special assessments, increase borrowings 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, 2014**

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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 was updated by The Falcon Engineering Group in March 2015, to be retroactively effective January 1, 2015. 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 2015 Schedule<br>(Unaudited)                      |   |
|--|---|---|
|  | <u>Estimated<br/>Remaining Useful<br/>Lives (Years)</u> | <u>Estimated<br/>Then Current<br/>Replacement<br/>Costs</u> |
| Sitework   | 8-25  | \$ 146,856  |
| Interior finishes  | 1-21  | 709,495   |
| Recreation   | 1-16  | 72,700  |
| Building, including electrical, HVAC, plumbing<br>façade, garage, elevator, roof | 1-24  | <u>17,306,428</u>   |
| Total  |   | <u>\$ 18,235,479</u>  |
| Replacement fund balance as of December 31, 2014                                 |   | <u>\$ 2,680,252</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, 2014**  
**With Comparative Totals for 2013**

|   | 2014             |                       | 2013             |
|---|------------------|-----------------------|------------------|
|   | Actual           | (Unaudited)<br>Budget | Actual           |
| <b>Revenues</b>   |                  |                       |                  |
| Real estate taxes   | \$ 1,636,058     | \$ 1,640,000          | \$ 1,589,999     |
| Tenant - shareholder maintenance fees   | 1,232,267        | 1,223,668             | 1,324,141        |
| Energy costs  | 769,571          | 775,000               | 724,527          |
| Commercial rental income  | 621,302          | 734,688               | 542,253          |
| Capital contribution fees   | 567,500          | 567,500               | 567,500          |
| Parking income  | 419,389          | 413,340               | 437,231          |
| Cable income  | 115,779          | 117,664               | 114,386          |
| Other income  | 108,862          | 33,240                | 106,212          |
| Insurance proceeds, net of expenses<br>of approximately \$220,000 for 2014 only | 46,260           | -                     | 17,101           |
| Late fee and legal collections income   | 41,336           | 30,000                | 66,525           |
| Gym room income   | 35,340           | 30,000                | 33,267           |
| Guest parking income  | 14,115           | 12,000                | 16,943           |
| Storage room income   | 9,723            | 9,600                 | 9,346            |
| Investment income   | 1,632            | 210                   | 2,187            |
| Pool income   | 1,117            | 11,000                | 11,082           |
| <b>Total Revenues</b>   | <b>5,620,251</b> | <b>5,597,910</b>      | <b>5,562,700</b> |
| <b>Operating Expenses</b>   |                  |                       |                  |
| <b>Administrative</b>   |                  |                       |                  |
| Real estate taxes   | 1,613,367        | 1,642,750             | 1,590,000        |
| Mortgage interest   | 163,947          | 165,830               | 179,788          |
| Management services   | 158,833          | 154,706               | 150,200          |
| Insurance   | 157,309          | 146,661               | 146,661          |
| Federal and state income taxes  | 104,361          | 131,000               | 198,013          |
| Legal   | 83,210           | 40,000                | 39,973           |
| Office  | 18,846           | 27,500                | 20,884           |
| Licenses and permits  | 16,330           | 7,500                 | 5,433            |
| Audit   | 12,750           | 9,250                 | 9,300            |
| Miscellaneous   | 11,827           | 11,000                | 2,000            |
| Building link   | 8,089            | 6,741                 | 6,741            |
| Social and recreation expenses  | 3,387            | 7,500                 | 6,834            |
| Bank fees   | 145              | -                     | -                |
| Bad debt  | -                | -                     | 20,500           |
| Office equipment  | -                | -                     | 5,217            |
| <b>Total Administrative</b>   | <b>2,352,401</b> | <b>2,350,438</b>      | <b>2,381,544</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, 2014**  
**With Comparative Totals for 2013**

|  | 2014           |                       | 2013           |
|--|----------------|-----------------------|----------------|
|  | Actual         | (Unaudited)<br>Budget | Actual         |
| <b>Operating Expenses (Continued)</b>            |                |                       |                |
| <b>Building and Maintenance Operations</b>       |                |                       |                |
| Repairs - general                                | 133,911        | 110,000               | 43,569         |
| Cable  | 118,132        | 117,664               | 115,060        |
| Supplies   | 100,139        | 87,000                | 84,292         |
| Pool management and repairs                      | 42,358         | 23,500                | 25,435         |
| Elevator   | 32,100         | 73,063                | 69,697         |
| HVAC - repairs                                   | 25,780         | 23,000                | 66,600         |
| Fire prevention                                  | 14,566         | 8,000                 | 7,902          |
| Water treatment services                         | 7,262          | 8,500                 | 8,377          |
| Uniforms   | 7,178          | 6,500                 | 6,477          |
| Landscaping                                      | 6,492          | 9,500                 | 11,345         |
| Exterminating                                    | 4,189          | 7,500                 | 5,438          |
| Repairs - emergency                              | -              | 30,000                | 64,319         |
| Insurance claims deductible                      | -              | 30,000                | -              |
| <b>Total Building and Maintenance Operations</b> | <b>492,107</b> | <b>534,227</b>        | <b>508,511</b> |
| <b>Utilities</b>                                 |                |                       |                |
| Electricity                                      | 342,845        | 308,627               | 268,147        |
| Water and sewer                                  | 289,804        | 230,000               | 251,778        |
| Fuel and gas                                     | 279,180        | 275,000               | 245,327        |
| Telephone  | 8,744          | 8,000                 | 7,166          |
| <b>Total Utilities</b>                           | <b>920,573</b> | <b>821,627</b>        | <b>772,418</b> |
| <b>Payroll</b>                                   |                |                       |                |
| Salaries and wages                               | 651,451        | 607,226               | 641,708        |
| Employee benefits                                | 106,732        | 122,640               | 115,944        |
| Payroll taxes                                    | 61,836         | 66,245                | 56,049         |
| Workers' compensation                            | 40,458         | 35,940                | 35,940         |
| <b>Total Payroll</b>                             | <b>860,477</b> | <b>832,051</b>        | <b>849,641</b> |
| <b>Operating Contingency</b>                     | <b>-</b>       | <b>40,027</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, 2014**  
**With Comparative Totals for 2013**

|  | 2014                |                       | 2013             |
|--|---------------------|-----------------------|------------------|
|  | Actual              | (Unaudited)<br>Budget | Actual           |
| <b>Replacement Fund</b>  |                     |                       |                  |
| Tenant - shareholders' maintenance fees allocated to replacement fund  | 692,500             | 692,500               | 567,500          |
| Commercial income allocated to the replacement fund  | 8,572               | -                     | 8,571            |
| Investment income allocated to replacement fund  | 673                 | -                     | 1,951            |
| <b>Total Allocations to the Replacement Fund</b>   | <u>701,745</u>      | <u>692,500</u>        | <u>578,022</u>   |
| <b>Total Operating Expenses and Allocations to the Replacement Fund</b>  | <u>5,327,303</u>    | <u>5,270,870</u>      | <u>5,090,136</u> |
| <b>Excess of Revenues Over Operating Expenses and Allocations to the Replacement Fund before Mortgage Principal Payments, Budgeted Surplus Carryover and Excluding Depreciation and Amortization</b>                     | 292,948             | 327,040               | 472,564          |
| <b>Budgeted Surplus Carryover</b>  | -                   | (125,000)             | -                |
| <b>Mortgage Principal Payments</b>   | <u>452,040</u>      | <u>452,040</u>        | <u>436,714</u>   |
| <b>Excess (Deficiency) of Revenues Over Operating Expenses and Allocations to Replacement Fund Including Mortgage Principal Payments, Budgeted Surplus Carryover and Excluding Depreciation and Amortization Expense</b> | <u>\$ (159,092)</u> | <u>\$ -</u>           | <u>\$ 35,850</u> |