

STAR TOWER CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

STAR TOWER CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2012

CONTENTS

	Page
Independent Auditors' Report.....	1-2
Financial Statements:	
Balance Sheet .....	3
Statement of Revenues, Expenses and Changes in Fund Balance (Deficit).....	4
Statement of Cash Flows.....	5-6
Notes to Financial Statements .....	7-9
Supplementary Information:	
Supplementary Information on Future Major Repairs and Replacements .....	11

To the Board of Directors  
Star Tower Condominium Association, Inc.  
Orlando, Florida

## INDEPENDENT AUDITORS' REPORT

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Star Tower Condominium Association, Inc., which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses, and changes in fund balance (deficit) and cash flows for the year then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Star Tower Condominium Association, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Disclaimer of Opinion on Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 11 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 management about the methods of preparing the information and comparing the information for consistency with management's 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.

DiCrescenzo and Company, P.A.  
Certified Public Accountants  
Deerfield Beach, Florida  
April 5, 2013

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
BALANCE SHEET  
December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 49,320	\$ 148,174	\$ 197,494
Assessments Receivable, Net of \$2,519 Allowance for Doubtful Accounts	72,821	-	72,821
Prepaid Insurance	43,701	-	43,701
Prepaid Expenses	2,349	-	2,349
Due From Operating Fund		28,100	28,100
Due To Replacement Fund	<u>(28,100)</u>	-	<u>(28,100)</u>
 Total Assets	 <u>\$ 140,091</u>	 <u>\$ 176,274</u>	 <u>\$ 316,365</u>
 <b>LIABILITIES AND EQUITY (DEFICIT)</b>			
<b>LIABILITIES</b>			
Accounts Payable and Accrued Expenses	\$ 190,175	\$ -	\$ 190,175
Prepaid Assessments	12,152	-	<u>12,152</u>
 Total Liabilities	 202,327	 -	 202,327
 Fund Balance (Deficit)	 (125,272)	 176,274	 51,002
Capital Contributions	<u>63,036</u>	<u>-</u>	<u>63,036</u>
 Total Equity (Deficit)	 <u>(62,236)</u>	 <u>176,274</u>	 <u>114,038</u>
 Total Liabilities and Equity (Deficit)	 <u>\$ 140,091</u>	 <u>\$ 176,274</u>	 <u>\$ 316,365</u>

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

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE (DEFICIT)  
For the Year Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Member Assessments	\$ 339,687	\$ 18,852	\$ 358,539
Developer Assessments and Contributions	654,570	64,456	719,026
Cubhouse Rental	4,225	-	4,225
Late Fees	3,025	-	3,025
NSF Fees	40	-	40
Screening Fees	2,335	-	2,335
Gate Keys	1,000	-	1,000
Interest	121	366	487
Interest Fees	9,769	-	9,769
Other Income	14,602	-	14,602
<b>Total Revenues</b>	<u>1,029,374</u>	<u>83,674</u>	<u>1,113,048</u>
<b>EXPENSES</b>			
Administration and Front Desk Salaries	52,842	-	52,842
Annual Condominium Fees and Corporate Report	584	-	584
Bad Debt	18,000	-	18,000
Bank Charges	10	-	10
Cable Television	30,180	-	30,180
Common Area Supplies	830	-	830
Contingency	16,030	-	16,030
Electricity	72,492	-	72,492
Elevator	22,693	-	22,693
Equipment	1,514	-	1,514
Fire Alarm	4,486	-	4,486
Fire Sprinkler	6,967	-	6,967
General Repairs and Maintenance	32,093	-	32,093
Group Health Insurance	10,480	-	10,480
HVAC	2,818	-	2,818
Insurance	56,492	-	56,492
Interior and Exterior Repairs	233,009	-	233,009
Irrigation	35	-	35
Janitorial	23,918	-	23,918
Lawn and Landscaping Extras	6,077	-	6,077
Licenses and Fees	816	-	816
Lighting	13,501	-	13,501
Maintenance Services	36,112	-	36,112
Management Fees	24,244	-	24,244
Office, Postage, and Printing	4,707	-	4,707
Painting	1,625	-	1,625
Pest Control	1,100	-	1,100
Pool and Spa	2,572	-	2,572
Pool Equipment and Jacuzzi	9,157	-	9,157
Professional Fees	43,906	-	43,906
Screening Fees	404	-	404
Security	100,345	-	100,345
Telephone	11,690	-	11,690
Trash Chute and Removal	17,899	-	17,899
Uniforms	368	-	368
Water and Sewer	206,432	-	206,432
<b>Total Expenses</b>	<u>1,066,428</u>	<u>-</u>	<u>1,066,428</u>
Excess of Revenues over Expenses	(37,054)	83,674	46,620
Fund Balance (Deficit) - Beginning of Year	(151,432)	92,600	(58,812)
Prior Year Adjustment	63,194	-	63,194
<b>Fund Balance (Deficit) - End of Year</b>	<u>\$ (125,232)</u>	<u>\$ 176,274</u>	<u>\$ 51,002</u>

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

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2012

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Member Assessments Collected	\$ 315,264	\$ 18,852	\$ 334,116
Developer Assessments and Contributions Collected	633,571	64,456	698,027
Clubhouse Rental Received	4,225	-	4,225
Late Fees Received	3,025	-	3,025
NSF Fees Received	40	-	40
Screening Fees Received	2,335	-	2,335
Gate Keys Received	1,000	-	1,000
Interest Received	121	366	487
Interest Fees Received	9,769	-	9,769
Other Income Receipts	14,602	-	14,602
Cash Paid for Operating Expenditures	<u>(966,518)</u>	<u>-</u>	<u>(966,518)</u>
Net Cash Provided by Operating Activities	<u>17,434</u>	<u>83,674</u>	<u>101,108</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital Contributions	<u>2,947</u>	<u>-</u>	<u>2,947</u>
Net Cash Provided by Investing Activities	<u>2,947</u>	<u>-</u>	<u>2,947</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Interfund Borrowings	<u>16,357</u>	<u>(16,357)</u>	<u>-</u>
Net Cash Provided by (Used in) Financing Activities	<u>16,357</u>	<u>(16,357)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	36,738	67,317	104,055
Cash and Cash Equivalents - Beginning of Year	<u>12,582</u>	<u>80,857</u>	<u>93,439</u>
Cash and Cash Equivalents - End of Year	<u>\$ 49,320</u>	<u>\$ 148,174</u>	<u>\$ 197,494</u>

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

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS (Continued)  
For the Year Ended December 31, 2012

	Operating Fund	Replacement Fund	Total
Reconciliation of Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Excess of Revenues over Expenses	\$ (37,054)	\$ 83,674	\$ 46,620
Adjustments to Reconcile Excess of Revenues over Expenses to Net Cash Provided by Operating Activities:			
Allowance for Doubtful Accounts	(3,382)	-	(3,382)
Prior Year Adjustment	63,194	-	63,194
(Increase) Decrease in Assets:			
Assessments Receivable	(24,717)	-	(24,717)
Prepaid Insurance	(3,405)	-	(3,405)
Prepaid Expenses	(4)	-	(4)
Prepaid Interest	683	-	683
Increase (Decrease) in Liabilities:			
Accounts Payable and Accrued Expenses	72,572	-	72,572
Insurance Payable	(33,070)	-	(33,070)
Developer Payable	(20,999)	-	(20,999)
Collection Fees Due	(60)	-	(60)
Prepaid Assessments	3,676	-	3,676
Net Cash Provided by Operating Activities	\$ 17,434	\$ 83,674	\$ 101,108

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



STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2012

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization - Star Tower Condominium Association, Inc. is an Association incorporated in the State of Florida on September 13, 2007. Star Tower Condominium Association, Inc. is responsible for the operation and maintenance of the common areas of Star Tower Condominium Association, which consists of 100 residential units and 1 commercial unit located in Orlando, Florida.
2. Fund Accounting - The Association uses fund accounting. It requires that funds, such as the operating fund and the fund designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from both the operating and replacement funds are generally at the discretion of the Board of Directors. Disbursements from the replacement fund may be made only for their designated purposes.
3. Recognition of Assets - Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining the proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure.
4. Member Assessments - Member assessments are billed monthly based upon their proportionate share of ownership and are recognized as revenue on a pro rata basis over the period covered by the billing. Member assessments are based upon estimates of amounts necessary to provide funds for the Association's operating expenses and future major repairs and replacements. Assessments receivable from members are reported at the outstanding balance due from the members. It is the Association's policy to retain legal counsel and place liens on the units of members whose assessments are delinquent. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting the receivable. As of December 31, 2012, an allowance for doubtful accounts has been established in the amount of \$2,519. Any excess assessments at year end are retained by the Association for reduction of member assessments in future years.
5. Income Taxes - In 2012, the Association elected to file as a homeowners' association in accordance with Internal Revenue Service Code section 528. Under this section, the Association excludes from taxation exempt function income, which generally consists of revenue from assessments to owners. The Association's investment income and other nonexempt income are subject to tax at a rate of 30%, net of any applicable expenses.
6. Interest Income - The Board of Directors' policy is to allocate to the operating and replacement funds all interest earned on their respective cash accounts.
7. Concentration of Credit Risk - Financial instruments that potentially subject the Association to concentrations of credit risk are primarily cash and assessments receivable. The Association invests its excess cash in both deposits and high quality short-term liquid money market instruments with major financial institutions and the carrying value approximates market value. The Association has not experienced losses related to these investments. The Association believes it is not exposed to any significant credit risk on cash and assessments receivable.
8. Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (Continued)  
 December 31, 2012

NOTE A - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. Fair Value of Financial Instruments - The carrying amounts of cash, receivables, and payables approximate their fair values due to their short-term maturities.

10. Cash and Cash Equivalents - For purposes of the December 31, 2012 balance sheet and statement of cash flows for the year ended December 31, 2012, the Association considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

11. Comprehensive Income - ASC 220 (formerly SFAS No. 130) requires "a full set of general-purpose financial statements to be expanded to include the reporting of comprehensive income." Comprehensive income is comprised of two components, net income and other comprehensive income. For the year ended December 31, 2012, there were no items that qualify as comprehensive income.

12. Revenue Recognition - Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet.

NOTE B - REPLACEMENT FUND

Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations.

The Developer and Association are funding for major repairs and replacements over the remaining useful lives of the components based on the estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$85,643 has been included in the 2013 budget.

Funds are being accumulated in the replacement fund based on 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. 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 Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The activity in the replacement fund was as follows:

<u>Components</u>	<u>Balance</u> <u>01/01/12</u>	<u>Assessments</u>	<u>Developer</u> <u>Contributions</u>	<u>Interest</u> <u>Income</u>	<u>Balance</u> <u>12/31/12</u>
Air Conditioning	\$ 2,544	\$ 1,912	\$ 973	\$ -	\$ 5,429
Painting Common Areas	2,887	2,040	1,038	-	5,965
Gate System	12,723	6,882	3,503	-	23,108
Generator	5,595	3,444	1,753	-	10,792
Roof	6,361	3,776	1,922	-	12,059
Fire Sprinkler System	2,238	1,779	906	-	4,923
Elevator	26,288	14,026	7,140	-	47,454
Pool	10,444	5,877	2,991	-	19,312
Fire Control System	2,238	1,779	906	-	4,923
Driveways Pavement	1,290	1,312	668	-	3,270
Carpets	5,089	3,154	1,606	-	9,849
Security Equipment	3,357	2,334	1,188	-	6,879
Pool Deck	6,107	3,651	1,859	-	11,617
Fences and Balconies	5,167	3,240	1,549	-	10,056
Interest	272	-	-	366	638
	<u>\$ 92,600</u>	<u>\$ 55,206</u>	<u>\$ 28,102</u>	<u>\$ 366</u>	<u>\$ 176,274</u>

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2012

NOTE C - BULK ASSIGNEE

On June 26, 2012, Alidade Star Tower, I.L.C, a Michigan limited liability company, acquired 49 of the 101 condominium units at Star Tower, including 48 of the 100 residential units and the one commercial unit, from Redus Florida Condos, LLC, a Delaware limited liability company (the "Acquisition"). In connection with the Acquisition, Alidade Star Tower, I.L.C was assigned certain rights of the Developer and specifically disclaimed obligations and liabilities of the Developer as a Bulk Assignee under the Florida Distressed Condominium Relief Act. These rights included certain aspects of control and funding of the Star Tower Condominium Association.

NOTE D - CAPITAL CONTRIBUTIONS

At the time of a unit closing, a working capital contribution in the amount of two times the monthly assessment is collected. These working capital contributions may be commingled by the Association with any of its other funds and accordingly they have been included in the operating fund. The purpose of these working capital contributions shall be for initial maintenance, utility deposits, advance insurance premiums and such other expenses as deemed necessary or desirable by the Association. The bulk assignee is exempt from the payment of working capital contributions to the Association arising out of, or in connection with the acquisition of units by the assignee.

NOTE E - WINDSTORM INSURANCE

The insurance policy for windstorm coverage renewed September 23, 2013. The deductible amount for named hurricane storms is estimated at \$933,000, which represents 3% of the insured value of the residential building and personal property, which is estimated to be \$31,100,000.

NOTE F - CABLE TELEVISION

On December 14, 2006, the Association entered into a ten (10) year agreement for cable television service. The initial monthly service charge was \$29.00 per unit plus franchise fees and state sales tax. The Company monthly services may be increased by a percentage of no more than 10% and no more than once in twelve (12) months. The cable company agrees that no increase shall exceed the basic residential subscriber rate it charges in the franchised area. The agreement will renew for additional terms of five (5) years unless either party shall provide a ninety (90) days notice of its intention not to renew at the end of the then current term.

NOTE G - COMMITMENT

On August 7, 2008 the Association entered into a contract for five (5) years with an elevator company for service and maintenance at total cost of \$1,864 per month as adjusted for change orders and labor rates. As of December 31, 2012, the Association had incurred costs of \$22,304.

NOTE H - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 5, 2013 the date that the financial statements were available to be issued.

NOTE I - UNCERTAINTIES FOR INCOME TAXES

Under federal and state income tax laws, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At December 31, 2012, the Association's tax years that remain subject to examination are 2009 - 2012.

STAR TOWER CONDOMINIUM ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (Continued)  
December 31, 2012

NOTE J - FUND BALANCE (DEFICIT)

The Association prior to the year ended 2010 has never been audited. It is recognized that the fund balance is deficient from the original Developer and will be adjusted accordingly at the date of turnover, which is undetermined at this time.

NOTE K - PRIOR YEAR ADJUSTMENT

There was a \$63,194 adjustment to increase the operating fund balance due to prior years developer balance. There is no effect on current year income or loss.

SUPPLEMENTARY INFORMATION

STAR TOWER CONDOMINIUM ASSOCIATION, INC  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 December 31, 2012  
 (Unaudited)

In November, 2012 when preparing the 2013 budget, the Developer and the Association estimated the remaining useful lives and the replacement costs of the components of common property.

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

Components	Remaining Estimated Useful Lives	Estimated Current Replacement Costs	Balance December 31, 2011	Additions	Developer Contributions	Interest Income	Balance December 31, 2012	2013 Required Funding
Air Conditioning	5	\$ 10,000	\$ 2,544	\$ 1,912	\$ 973	\$ -	\$ 5,429	\$ 914
Painting Common Areas	2	7,000	2,887	2,940	1,038	-	5,965	518
Gate System	5	50,000	12,723	6,882	3,503	-	23,108	5,378
Generator	15	50,000	5,395	3,444	1,753	-	10,792	2,614
Roof	5	25,000	6,361	3,776	1,922	-	12,059	2,588
Fire Sprinkler System	14	20,000	2,238	1,779	906	-	4,923	1,077
Elevator	14	240,000	26,288	14,026	7,140	-	47,454	13,753
Pool	45	250,000	10,444	5,877	2,991	-	19,312	5,126
Fire Control System	15	20,000	2,238	1,779	906	-	4,923	1,005
Driveway Pavement	25	18,000	1,390	1,312	668	-	3,270	589
Carpets	5	20,000	5,689	3,154	1,606	-	9,849	2,030
Security Equipment	15	30,000	3,257	2,334	1,188	-	5,879	1,541
Pool Deck	5	24,000	6,107	3,651	1,859	-	11,617	2,477
Fences and Balconies	25	77,000	5,167	3,240	1,649	-	10,056	2,478
Water Pump Replacement	-	18,000	-	-	-	-	-	-
Interest	-	-	272	-	-	366	638	-
		<u>\$ 854,000</u>	<u>\$ 92,600</u>	<u>\$ 55,206</u>	<u>\$ 28,102</u>	<u>\$ 366</u>	<u>\$ 176,274</u>	<u>\$ 42,038</u>