

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

300 WEST 23RD STREET OWNERS CORP.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders
300 WEST 23RD STREET OWNERS CORP.

Report on the Financial Statements

I have audited the accompanying financial statements of 300 WEST 23RD STREET OWNERS CORP., which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Responsibility for the Financial Statements

The Board of Directors and management are 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 300 WEST 23RD STREET OWNERS CORP. as of December 31, 2019, and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information about Future Major Repairs and Replacements

The Corporation has not presented supplementary information about future major repairs and replacements to common property that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such omitted 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 the financial reporting and for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by the omitted information.

Pelham, New York
June 10, 2020

Michael A. Rozycki CPA PLLC

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 345,108	\$ 475,857
Cash and cash equivalents , interest bearing	897,493	1,123,998
Cash designated for real estate taxes	417,704	383,767
Investment in certificates of deposit	945,000	945,833
Receivables from tenant-shareholders	42,848	4,279
Prepaid expenses	10,751	7,800
Prepaid common charges	-	139,961
Total current assets	<u>2,658,904</u>	<u>3,081,495</u>
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	<u>6,977,941</u>	<u>6,490,045</u>
	25,293,331	24,805,435
Less accumulated depreciation	<u>14,899,889</u>	<u>14,342,356</u>
Net real property	<u>10,393,442</u>	<u>10,463,079</u>
Other assets:		
Security deposit account	108,138	120,346
Investment in NCB stock	<u>105,159</u>	<u>105,159</u>
Total assets	<u>\$ 13,265,643</u>	<u>\$ 13,770,079</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 23,247	\$ 29,989
Contractors payable for capital projects	-	40,649
Accrued interest payable	37,494	38,358
Common charges payable	50,921	-
Maintenance revenue received in advance	77,934	33,548
Tax abatement credits due to tenant-shareholders	109,098	99,383
Mortgage note payable due within one year	<u>291,372</u>	<u>281,063</u>
Total current liabilities	<u>590,066</u>	<u>522,990</u>
Other liabilities:		
Mortgage note payable, net of unamortized debt acquisition costs of \$161,858 and \$188,105 in 2019 and 2018, respectively	12,044,826	12,309,951
Refundable security deposits	<u>219,117</u>	<u>228,325</u>
Total liabilities	<u>12,854,009</u>	<u>13,061,266</u>
 Commitments and Contingencies - Note 7		
STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,575 shares issued and outstanding		
	37,575	37,575
Additional paid-in capital	13,699,943	13,699,943
Additional paid-in capital, treasury stock	75,025	75,025
Treasury stock	(485,526)	(485,526)
Accumulated deficit	<u>(12,915,383)</u>	<u>(12,618,204)</u>
Total stockholders' equity	<u>411,634</u>	<u>708,813</u>
Total liabilities and stockholders' equity	<u>\$ 13,265,643</u>	<u>\$ 13,770,079</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues:		
Maintenance charges	\$ 3,862,465	\$ 3,750,231
Maintenance assessments	297,990	274,071
Late fees	19,254	9,900
Sublet fees	5,126	6,509
Move-in fees	6,300	4,500
Laundry	21,200	20,400
Transfer fees	17,460	11,520
Alteration fees	-	15,000
Storage bins	59,430	45,440
Interest income	28,248	13,247
Other income	8,199	1,401
	<u>4,325,672</u>	<u>4,152,219</u>
Expenses:		
Common charges, operating expenses	989,974	823,228
Excess condominium expenses - Note 5	523,768	533,966
Gas, laundry room	3,466	3,278
Repairs and maintenance	84,958	70,593
Water and sewer charges	86,674	84,191
Insurance	7,301	7,094
Debt servicing costs	480,845	491,038
Real estate taxes	1,769,534	1,641,908
Professional fees	17,250	17,643
Real estate tax certiorari	550	550
Corporation taxes	15,212	13,666
Administrative and telephone	36,630	35,990
Other	5,904	3,750
	<u>4,022,066</u>	<u>3,726,895</u>
Income from operations before depreciation and billing adjustments	303,606	425,324
Depreciation of building and improvements	(557,533)	(548,085)
Adjustment to prior years water and sewer billing	(43,252)	-
Net loss for the year	<u><u>\$ (297,179)</u></u>	<u><u>\$ (122,761)</u></u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,575	\$ 37,575
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 37,575</u>	<u>\$ 37,575</u>
<u>Additional Paid-In Capital</u>		
Balance, beginning of year	\$ 13,699,943	\$ 13,699,943
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 13,699,943</u>	<u>\$ 13,699,943</u>
<u>Additional Paid-In Capital, Treasury Stock</u>		
Balance, beginning of year	\$ 75,025	\$ 75,025
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 75,025</u>	<u>\$ 75,025</u>
<u>Treasury Stock</u>		
Balance, beginning of year	\$ (485,526)	\$ (485,526)
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ (485,526)</u>	<u>\$ (485,526)</u>
<u>Accumulated Deficit</u>		
Balance, beginning of year	\$ (12,618,204)	\$ (12,495,443)
Net (loss) for the year	<u>(297,179)</u>	<u>(122,761)</u>
Balance, end of year	<u>\$ (12,915,383)</u>	<u>\$ (12,618,204)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Cash Flows From Operating Activities</u>		
Net (loss) for the year	\$ (297,179)	\$ (122,761)
Adjustments to reconcile net (loss) for the year to net cash provided by operating activities:		
Non-cash: depreciation of building and improvements	557,533	548,085
Non-cash: amortization of debt issuance costs to interest expense	26,247	26,247
Reclassification of certificates of deposit as cash equivalents	945,833	-
(Increase) decrease in assets:		
Receivables from tenant-shareholders	(38,569)	44,403
Prepaid expenses	(2,951)	345,156
Prepaid common charges	139,961	28,201
Security deposit account	12,208	(1,500)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(7,606)	6,767
Common charges payable	50,921	-
Maintenance revenue received in advance	44,386	(14,065)
Tax abatement credit due to tenant-shareholders	9,715	12,798
Refundable security deposits	(9,208)	8,500
<u>Net Cash Provided By Operating Activities</u>	<u>1,431,291</u>	<u>881,831</u>
<u>Cash Flows From Investing Activities</u>		
Additions to building improvements	(487,896)	(12,978)
Building improvements payable	(40,649)	(2,410)
Investment in certificates of deposit (including reinvested interest)	-	(1,110,833)
Redemption of certificates of deposit	-	649,018
<u>Net Cash Used In Investing Activities</u>	<u>(528,545)</u>	<u>(477,203)</u>
<u>Cash Flows From Financing Activities</u>		
Mortgage principal payments during the year	(281,063)	(270,922)
Net increase in cash and cash equivalents	621,683	133,706
Cash and cash equivalents, beginning of year	<u>1,983,622</u>	<u>1,849,916</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,605,305</u></u>	<u><u>\$ 1,983,622</u></u>
<u>Supplemental Cash Flow Disclosure</u>		
Cash used for interest	<u><u>\$ 455,462</u></u>	<u><u>\$ 465,603</u></u>
Cash used for franchise taxes	<u><u>\$ 15,704</u></u>	<u><u>\$ 12,433</u></u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
NOTES TO FINANCIAL STATEMENTS

1. **Nature of Organization**

300 WEST 23RD STREET OWNERS CORP. (the "Corporation") is a qualified cooperative housing corporation organized under Section 216(b)(1) of the Internal Revenue Code. The Corporation was formed to operate and maintain the residential unit of the 300 WEST 23RD STREET CONDOMINIUM (the "Condominium") located at 300 West 23rd Street, New York, New York. The residential unit comprises the 220 residential apartments in the building.

The financial statements of 300 WEST 23RD STREET CONDOMINIUM should be read in conjunction with these financial statements.

2. **Summary of Significant Accounting Policies**

Basis of Presentation - The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as detailed in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Corporation has determined that it meets the definition of a Common Interest Realty Association (CIRA) for accounting purposes and therefore follows the CIRA accounting guidance in ASC 972.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Accordingly, actual results could differ from those estimates and the differences could be material.

Fair Value of Financial Instruments - Financial instruments include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses, mortgage notes payable, credit lines payable and other liabilities. The recorded values of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of debt approximate their fair values as interest approximates market rates.

Cash Equivalents - For purposes of the statement of cash flows, the Corporation considers all temporary cash investments with original maturities of three months or less, and certificates of deposit that do not contain significant early withdrawal penalties, to be cash equivalents.

Accounts Receivable - Amounts due from tenant-shareholders are deemed fully collectible by the Corporation. It is the Corporation's policy to retain legal counsel and place liens against tenant-shareholders whose maintenance charges and assessments are in arrears. This policy is strictly enforced after all reasonable collection methods are exhausted. Accordingly, no amount has been established as an allowance for uncollectible accounts.

Depreciation - Building and building improvements are stated at cost. The building and improvements are depreciated over their estimated useful lives using the straight-line method. Expenditures for repairs and maintenance are charged to operations as incurred.

Maintenance Charges - Tenant-shareholders are subject to monthly maintenance charges based on an annual budget determined by the Board of Directors to provide funds for the Corporation's operating expenses and major repairs and replacements to the common property. Any excess operating funds at year-end are retained by the Corporation for use in future years. Maintenance charge revenue is recognized as income in the period earned and is reported at estimated net realizable amounts. Payments received in advance are deferred until earned.

Income Taxes - The Corporation is subject to Federal income tax as a cooperative association pursuant to Subchapter T of the Internal Revenue Code. The Corporation is also subject to New York State franchise tax and New York City general corporation tax at prevailing tax rates and methods. The Corporation's tax filings are subject to audit by various taxing authorities for the years 2017 through 2019. In evaluating the Corporation's tax provisions and accruals, the Corporation believes that its estimates are appropriate based on current facts and circumstances.

The Corporation has incurred cumulative net operating losses for tax purposes which are available to be carried forward to future tax periods. It is not likely that the Corporation will benefit from any deferred tax benefits resulting from prior losses and, accordingly, no deferred tax assets have been recognized in these financial statements.

The Corporation has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 - *Accounting for Uncertainty in Income Taxes*. The Corporation will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authorities. The Corporation continually evaluates changes in the tax law and new authoritative rulings. At present, there are no uncertain tax positions recorded that would have a material impact on the financial statements.

300 WEST 23RD STREET OWNERS CORP.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies (Continued)

Treasury Stock – Shares of stock allocated to apartments acquired by the Corporation have been recorded as treasury stock at the total cost incurred by the Corporation in acquiring those shares.

Long Term Debt and Debt Issuance Costs – In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, “Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03), which resulted in the reclassification of debt issuance costs from other assets (“Unamortized mortgage costs”) to inclusion as a reduction of reportable long-term debt (“Mortgage note payable”) on our balance sheet.

3. Mortgage Note Payable and Line of Credit

The Corporation’s debt consists of a first mortgage note in the original principal amount of \$13,500,000, together with a second mortgage line of credit, payable to Investors Bank (the “Lender”). The first mortgage note requires constant monthly payments of \$61,377 applied to interest at the annual rate of 3.60% with the remainder to reduction of principal pursuant to a thirty-year repayment schedule. The mortgage is for a period of ten years maturing March 1, 2026 and may only be prepaid, subject to penalty, as defined in the mortgage documents.

Principal payments of the mortgage note for each of the next five years are as follows:

December 31,	2020	\$	291,372
	2021		302,036
	2022		313,091
	2023		324,550
	2024		336,428
	Thereafter		10,930,579

In addition to the first mortgage note, Investors Bank extended the Corporation a line of credit in the maximum amount of \$1,000,000. Interest is charged monthly on outstanding balances at a variable rate equal to the greater of (a) the Prime Rate plus 1.25%, or (b) 4.50%. No amounts have been drawn under this credit facility.

In connection with its February 2016 refinancing transaction, the Corporation incurred fees of \$262,472 that are being amortized over the ten-year term of the mortgage. Unamortized debt issuance costs (included as a reduction of long-term debt per ASU 2015-03) as at December 31, 2019 and 2018, were \$161,858 and \$188,105, respectively. Amortization of debt issuance costs is now reported together with interest expense in the statement of operations as Debt Servicing Costs. Interest expense for the years ending December 31, 2019 and 2018 was \$454,598 and \$464,791, respectively.

The residential unit of the 300 WEST 23RD STREET CONDOMINIUM is pledged as collateral for the mortgage and credit line.

As a condition of NCB extending the Corporation its prior mortgage note, the Corporation was required to purchase stock in NCB in the amount of 1.0% of the principal balance of the mortgage, or \$120,000. The stock is not marketable or transferable and may only be redeemed upon satisfaction of the mortgage unless repurchased sooner at the Bank’s election. During 2017, NCB repurchased stock in the amount of \$14,841 from the Corporation. As of the date of this report, NCB has not notified the Corporation of its intention to repurchase the remaining \$105,159 of the bank’s stock.

4. Funding for Future Major Repairs and Replacements

The Corporation has not conducted a formal study to determine the remaining useful lives of all the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. The study is not required by governing law or the By-laws of the Corporation. The Board of Directors reviews the condition of various building systems on a recurrent basis and intends to repair or replace elements of the common property as the need arises.

The Corporation has established separate accounts to accumulate funds for repairs and replacements to common property. When additional funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular maintenance, authorize special assessments, borrow, or delay major repairs and replacements until funds are available. The effect on future maintenance assessments has not been determined at this time.

300 WEST 23RD STREET OWNERS CORP.
NOTES TO FINANCIAL STATEMENTS

5. **Excess Condominium Expense Reimbursements**

In May 1996, the Condominium Association and the retail unit owner entered into an agreement wherein certain revisions were made to the operating budget of the Condominium with respect to the common elements and allocation of common expenses. Pursuant to the agreement, the Corporation, as the residential unit owner, is to reimburse the Condominium Association for certain expenses in excess of its residential common charges.

Expenses in excess of residential unit common charges for the years ended December 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Wages	\$ 161,123	\$ 190,918
Payroll tax expense	10,459	9,075
Employee union benefits	184,521	144,005
Electricity	<u>167,665</u>	<u>189,968</u>
Totals	<u>\$ 523,768</u>	<u>\$ 533,966</u>

6. **Adjustments to Tenant-Shareholder Stock Basis**

Maintenance fees contributed for the reduction of mortgage principal, as well as special assessments levied for capital improvement projects, are considered contributions to the capitalization of the corporation for income tax purposes. These amounts may be added by tenant-shareholders to their individual basis of investment in their apartments. Shareholders should consult their personal tax advisors as to their individual treatment.

Recent capital contributions per-share approximated the following:

2019	\$ 7.48	2014	\$ 18.46
2018	7.21	2013	5.30
2017	6.96	2012	5.31
2016	5.02	2011	10.51
2015	5.71	2010	8.64

7. **Commitments and Contingencies**

In general, the Corporation is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. In any instance we would immediately notify our insurance carrier. Although the outcome of legal proceedings and claims cannot be predicted with certainty, the Board of Directors and management estimate that any such matters would be resolved without a material adverse effect on the Corporation's future financial position or results of operations.

8. **Concentration of Credit Risk**

The Corporation maintains deposit accounts at high-quality financial institutions in New York City. From time to time, deposits in these accounts may exceed federally insured limits (FDIC). As at December 31, 2019 and 2018, the Corporation had uninsured cash deposits of \$660,315 and \$1,233,622, respectively. The Corporation has not experienced any losses in these accounts and does not deem them to be at risk.

9. **Date of Management's Review**

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through June 10, 2020, the date the financial statements were first available to be issued.

SUPPLEMENTARY INFORMATION

MICHAEL A. ROZYCKI, CPA, PLLC
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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Shareholders
300 WEST 23RD STREET OWNERS CORP.

I have audited the financial statements of 300 WEST 23RD STREET OWNERS CORP. as of and for the years ended December 31, 2019 and 2018, and have issued a report thereon dated June 10, 2020 which contained an unmodified opinion on those financial statements. My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Capital Improvements and Repairs and Maintenance are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of the Board of Directors and management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 my opinion, the information is fairly stated in all material respects to the financial statements as a whole.

Pelham, New York
June 10, 2020

Handwritten signature of Michael A. Rozycki, CPA, in black ink.

300 WEST 23RD STREET OWNERS CORP.
SCHEDULES OF CAPITAL IMPROVEMENTS, REPAIRS AND MAINTENANCE
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Capital Improvements</u>		
Elevator modernization and code compliance (paid to Condominium)	\$ 460,900	\$ -
Exterior leak investigations, specifications for FISP 9th Cycle	26,996	-
Concierge desk modifications	-	11,843
HVAC system upgrade	-	1,086
Exterior restoration, net of contract adjustment of \$1,515	-	49
	<hr/>	<hr/>
Totals	\$ <u>487,896</u>	\$ <u>12,978</u>
 <u>Repairs and Maintenance</u>		
Janitorial supplies and materials	\$ 22,742	\$ 28,874
Plumbing	32,416	14,612
Painting, plastering, carpentry, glazing	4,503	4,062
Exterminating	6,406	6,130
Intercom and electrical	7,636	5,815
Flooring, carpeting	2,085	6,525
Grounds, flowers	2,792	2,506
Equipment purchase and maintenance	5,443	-
Miscellaneous	935	2,069
	<hr/>	<hr/>
Totals	\$ <u>84,958</u>	\$ <u>70,593</u>