

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

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, 2012 and 2011, 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 audits. I conducted my audits 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, 2012 and 2011, 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.

Other Matters: Supplementary Information

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.

The Corporation has not presented supplementary information on current or future estimated costs of 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 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
April 11, 2013

Michael A. Zick, CPA, PLLC

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 272,259	\$ 285,689
Cash and cash equivalents , interest bearing	446,164	332,198
Cash designated for real estate taxes	264,369	254,452
Receivables from tenant-shareholders	55,296	30,712
Prepaid expenses	283	317
Prepaid common charges	<u>88,992</u>	<u>91,751</u>
Total current assets	1,127,363	995,119
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	<u>5,525,705</u>	<u>5,426,323</u>
	23,841,095	23,741,713
Less accumulated depreciation	<u>11,130,792</u>	<u>10,605,846</u>
	12,710,303	13,135,867
Other assets:		
Security deposits	88,775	28,155
Investment in NCB stock	120,000	120,000
Unamortized mortgage costs	<u>36,516</u>	<u>48,036</u>
Total assets	<u>\$ 14,082,957</u>	<u>\$ 14,327,177</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 33,866	\$ 30,935
Accrued interest payable	57,660	57,660
Maintenance revenue received in advance	55,594	41,773
Due to tenant-shareholders, tax abatements	<u>98,856</u>	<u>99,691</u>
Total current liabilities	245,976	230,059
Other liabilities:		
Mortgage note payable	12,000,000	12,000,000
Refundable security deposits	<u>160,753</u>	<u>89,434</u>
Total liabilities	<u>12,406,729</u>	<u>12,319,493</u>
 Commitments and contingencies (Note 8)		
 STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,549 shares issued and outstanding	37,549	37,549
Additional paid-in capital	13,641,469	13,641,469
Additional paid-in capital, treasury stock	75,025	75,025
Treasury stock	(485,526)	(485,526)
Accumulated deficit	<u>(11,592,289)</u>	<u>(11,260,833)</u>
Total stockholders' equity	<u>1,676,228</u>	<u>2,007,684</u>
Total liabilities and stockholders' equity	<u>\$ 14,082,957</u>	<u>\$ 14,327,177</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues:		
Maintenance charges	\$ 3,228,213	\$ 3,228,831
Maintenance assessments	199,640	394,627
Late fees	4,650	5,600
Sublet fees	26,245	29,352
Move-in fees	6,800	21,800
Laundry	18,800	18,760
Transfer fees	14,080	28,340
Storage bins	40,874	34,199
Interest income	1,258	740
Real estate tax refund, prior years	18,490	-
Other fees	9,912	11,994
	<u>3,568,962</u>	<u>3,774,243</u>
Expenses:		
Common charges, operating expenses	669,107	682,516
Excess Condominium expenses (Note 6)	531,816	522,118
Gas, laundry room	4,271	4,521
Repairs and maintenance	88,327	55,987
Water and sewer charges	78,741	73,845
Insurance	3,433	3,787
Interest expense	680,760	678,900
Real estate taxes	1,236,275	1,174,333
Professional fees	13,987	9,306
Real estate tax certiorari	14,003	550
Corporation taxes	11,383	11,171
Administrative expenses	25,135	20,374
Other	6,714	6,074
	<u>3,363,952</u>	<u>3,243,482</u>
Income from operations before depreciation and amortization	205,010	530,761
Depreciation	(524,946)	(520,886)
Amortization	(11,520)	(11,520)
Net income (loss) for the year	\$ (331,456)	\$ (1,645)

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,549	\$ 37,549
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 37,549</u>	<u>\$ 37,549</u>
<u>Additional Paid-In Capital</u>		
Balance, beginning of year	\$ 13,641,469	\$ 13,641,469
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 13,641,469</u>	<u>\$ 13,641,469</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	\$ (11,260,833)	\$ (11,259,188)
Net income (loss) for the year	<u>(331,456)</u>	<u>(1,645)</u>
Balance, end of year	<u>\$ (11,592,289)</u>	<u>\$ (11,260,833)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Cash Flows From Operating Activities</u>		
Net income (loss)	\$ (331,456)	\$ (1,645)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	536,466	532,406
(Increase) decrease in assets:		
Receivables from tenant-shareholders	(24,584)	10,924
Prepaid expenses	34	(15)
Prepaid common charges	2,759	(91,751)
Security deposits	(60,620)	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(7,143)	(11,530)
Common charges payable	-	(73,706)
Maintenance revenue received in advance	13,821	15,081
Due to tenant-shareholders, tax abatements	(835)	12,285
Refundable security deposits	71,319	(6,250)
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>199,761</u>	<u>385,799</u>
<u>Cash Flows From Investing Activities</u>		
Additions to building improvements	(99,382)	(20,340)
Building improvements payable	10,074	-
<u>Net Cash Provided (Used) By Investing Activities</u>	<u>(89,308)</u>	<u>(20,340)</u>
Net increase in cash	110,453	365,459
Cash and cash equivalents, beginning of year	872,339	506,880
Cash and cash equivalents, end of year	<u>\$ 982,792</u>	<u>\$ 872,339</u>

Supplemental Disclosure

Cash used during the year for:

Interest	\$ 680,760	\$ 678,900
Franchise taxes	\$ 13,948	\$ 6,646

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 the accounting principles prescribed by the *Audit and Accounting Guide for Common Interest Realty Associations* issued by the American Institute of Certified Public Accountants.

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.

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 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.

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 improvements to the common property. Any excess operating funds at year-end are retained by the Corporation for use in future years.

Income Taxes - The Corporation is presently subject to New York State franchise and New York City general corporation tax on its capital base using special rates available to cooperative housing corporations. The corporation is subject to Federal income tax pursuant to Subchapter T of the Internal Revenue Code. 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.

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

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

Uninsured Cash Balances - The Corporation maintains deposit accounts at various financial institutions in New York City. From time to time deposits in these accounts exceed federally insured limits. The Corporation has not experienced any losses in these accounts and does not deem them to be at risk.

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.

3. **Condominium Budget Revision**

In May 2009, the Board of Directors of 300 WEST 23RD STREET OWNERS CORP. and the Board of Managers of the 300 WEST 23RD STREET CONDOMINIUM mutually agreed to re-allocate repairs and maintenance that are the sole responsibility of 300 WEST 23RD STREET OWNERS CORP. directly to the Corporation's operating budget rather than allocate them through the common charge of the Condominium.

4. **Mortgage Note Payable**

In February 2006, the Corporation refinanced its outstanding mortgage and credit line with a new first mortgage in the principal amount of \$12,000,000 with National Cooperative Bank ("NCB"). The mortgage requires monthly payments of approximately \$55,800 applied to interest only at the rate of 5.58%. The mortgage is for a period of ten years maturing March 1, 2016 and may only be prepaid, subject to penalty, as defined in the mortgage documents.

As a condition of extending the first 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.

In connection with its 2006 refinancing transaction, the Corporation incurred fees of \$115,236 that are being amortized over the ten-year term of the mortgage.

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

5. **Line of Credit**

In addition to the first mortgage described above, NCB extended the Corporation a line of credit in the maximum amount of \$1,000,000. Interest is charged monthly on outstanding balances at 3.50% above LIBOR and is subject to change with each change in the LIBOR. Principal repayment is permitted in strict accordance with the terms of the loan documents. The credit line was not used during 2012 or 2011.

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

6. Excess Condominium Expense Reimbursements

In May 1996, the Condominium Association and the commercial 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 is to reimburse the 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, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Wages	\$ 198,348	\$ 188,707
Payroll tax expense	20,176	20,216
Employee union benefits	119,871	114,322
Electricity	<u>193,421</u>	<u>198,873</u>
Totals	<u>\$ 531,816</u>	<u>\$ 522,118</u>

7. 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 regular 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 the common property. When additional replacement 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.

Please refer to the supplementary information section of these financial statements for a schedule of current capital improvement projects and additional information.

8. Commitments and Contingencies

The Corporation is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. 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

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

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

Maintenance fees contributed for the reduction of mortgage principal as well as special assessments for capital improvements are considered contributions to the capitalization of the corporation. These amounts may be added by tenant-shareholders to their individual basis of investment in their apartments. Recent capital contributions approximated the following:

2012	\$ 5.31	2006	\$ 3.80
2011	10.51	2005	5.17
2010	8.64	2004	5.03
2009	3.88	2003	4.43
2008	3.39	2002	3.91
2007	3.67		

10. **Subsequent Events**

The Corporation has evaluated events and transactions that occurred between December 31, 2012 and April 11, 2013, the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

SUPPLEMENTARY INFORMATION

300 WEST 23RD STREET OWNERS CORP.
SCHEDULES OF CAPITAL IMPROVEMENTS, REPAIRS AND MAINTENANCE
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Capital Improvements</u>		
Window replacement project:		
Window contractor	\$ 7,722	\$ -
Architect, engineer and supervision	13,739	5,593
	21,461	5,593
Backflow prevention device	9,350	7,463
Storage bins & bike storage spaces	27,604	-
Standpipe piping replacement	23,794	-
Drain line replacement	7,032	-
Hot water return line	5,607	-
Expansion joints	4,534	-
Local Law 11, Cycle 7 commencement	-	3,170
Second floor roof section replacement, net of insurance proceeds	-	4,114
	\$ 99,382	\$ 20,340
<u>Repairs and Maintenance</u>		
Janitorial supplies and materials	\$ 29,540	\$ 21,681
Plumbing	23,260	18,116
Doors, locks and windows	3,970	1,569
Exterminating	15,705	6,336
Intercom and electrical	2,003	2,472
Cleaning and housekeeping	6,119	1,701
Lobby, entry, awning	1,600	-
Floors, carpeting	-	1,300
Miscellaneous	6,130	2,812
	\$ 88,327	\$ 55,987