

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2004 AND 2003

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.

I have audited the accompanying balance sheet of 300 WEST 23RD STREET OWNERS CORP. as of December 31, 2004 and 2003 and the related statements of operations and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's Board of Directors and management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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. and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Pelham, New York
January 26, 2005



300 WEST 23RD STREET OWNERS CORP.**BALANCE SHEET**

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash, operating accounts	\$ 23,477	\$ 13,974
Cash and cash equivalents, interest bearing	240,314	591,823
Escrow for real estate taxes (Notes 3 and 4)	81,207	46,476
Escrow for insurance, repairs and replacements (Notes 4 and 6)	189,172	150,022
Receivables, tenant-shareholders	18,122	22,667
Due from 300 WEST 23RD STREET CONDOMINIUM (Note 3)	241,829	187,325
Prepaid expenses	114,063	144,847
	<hr/>	<hr/>
Total current assets	908,184	1,157,134
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	2,578,412	2,547,617
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	20,893,802	20,863,007
Less accumulated depreciation	7,241,142	6,823,046
	<hr/>	<hr/>
	13,652,660	14,039,961
Other assets:		
Security deposits	6,155	6,155
Mortgage costs, net	167,932	183,800
	<hr/>	<hr/>
	\$ 14,734,931	\$ 15,387,050
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See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.**BALANCE SHEET**

December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
LIABILITIES		
Current liabilities:		
Mortgage note payable, currently due	\$ 79,777	\$ 71,782
Accounts payable and accrued expenses	36,508	26,973
Accrued interest payable	53,932	54,434
Common charges payable	251,561	269,000
Due to 300 WEST 23RD STREET CONDOMINIUM (Note 3)	135,544	60,090
Prepaid maintenance charges	22,081	20,539
Due to tenant-shareholders, tax abatements	52,597	48,906
	<hr/>	<hr/>
Total current liabilities	632,000	551,724
Other liabilities:		
Mortgage note payable	7,642,920	7,722,697
Refundable security deposits	61,199	43,378
	<hr/>	<hr/>
Total liabilities	8,336,119	8,317,799
	<hr/>	<hr/>
Commitments and contingencies (Note 6)		
STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,545 shares issued and outstanding		
	37,545	37,545
Additional paid-in capital	13,641,469	13,641,469
Additional paid-in capital, treasury stock	75,025	75,025
Treasury stock	(435,526)	(435,526)
Accumulated deficit	(6,919,701)	(6,249,262)
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Total stockholders' equity	6,398,812	7,069,251
	<hr/>	<hr/>
	\$ 14,734,931	\$ 15,387,050
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See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Revenues:		
Maintenance charges	\$ 2,274,454	\$ 2,191,599
Maintenance assessment	116,899	98,412
Late fees	5,060	3,201
Sublet fees	4,887	734
Laundry	16,200	16,200
Transfer fees	25,520	33,440
Storage bins	13,022	16,032
Air conditioner surcharge	30,640	24,174
Investment return	7,586	9,327
Corporation tax refunds, Section 277 audit (Note 8)	-	10,780
Other	4,851	1,377
	<u>2,499,119</u>	<u>2,405,276</u>
Expenses:		
Common charges, operating expenses	721,519	700,395
Common charges, common area improvements	165,371	227,969
Excess Condominium expenses (Note 5)	393,407	327,080
Water and sewer charges	48,174	-
Insurance	1,408	1,340
Interest expense	642,174	646,130
Real estate taxes	713,515	603,278
Professional fees	36,015	25,864
Corporation taxes	5,638	6,694
Administrative expenses	8,513	2,686
Other	2,527	6,383
	<u>2,738,261</u>	<u>2,547,819</u>
Income (loss) from operations before depreciation and amortization	(239,142)	(142,543)
Depreciation	(418,096)	(414,873)
Amortization	(13,201)	(13,201)
Net income (loss) for the year	<u>\$ (670,439)</u>	<u>\$ (570,617)</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,545	\$ 37,545
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 37,545</u>	<u>\$ 37,545</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	\$ (435,526)	\$ (435,526)
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ (435,526)</u>	<u>\$ (435,526)</u>
<u>Accumulated Deficit</u>		
Balance, beginning of year	\$ (6,249,262)	\$ (5,678,645)
Net income (loss) for the year	<u>(670,439)</u>	<u>(570,617)</u>
Balance, end of year	<u>\$ (6,919,701)</u>	<u>\$ (6,249,262)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Cash Flows From Operating Activities</u>		
Net income (loss)	\$ (670,439)	\$ (570,617)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	431,297	428,074
Amortization of prepaid interest	2,667	2,667
(Increase) decrease in assets:		
Escrow for real estate taxes	(34,731)	(17,429)
Escrow for insurance, repairs and replacements	(39,150)	(37,561)
Receivables, tenant-shareholders	4,545	(1,590)
Due from 300 WEST 23RD STREET CONDOMINIUM	(54,504)	(49,840)
Prepaid expenses	30,784	(15,846)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	9,033	(15,306)
Common charges payable	(17,439)	54,809
Due to 300 WEST 23RD STREET CONDOMINIUM	75,454	27,643
Prepaid maintenance charges	1,542	(6,748)
Due to tenant-shareholders, tax abatements	3,691	(44,088)
Refundable security deposits	17,821	10,598
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>(239,429)</u>	<u>(235,234)</u>
<u>Cash Flows From Investing Activities</u>		
Payments for building improvements	<u>(30,795)</u>	<u>(77,723)</u>
<u>Cash Flows From Financing Activities</u>		
Mortgage principal payments	<u>(71,782)</u>	<u>(67,852)</u>
Net increase (decrease) in cash	(342,006)	(380,809)
Cash and cash equivalents, beginning of year	<u>605,797</u>	<u>986,606</u>
Cash and cash equivalents, end of year	<u>\$ 263,791</u>	<u>\$ 605,797</u>
<u>Supplemental disclosure</u>		
Cash paid for:		
Interest	\$ 640,008	\$ 643,937
Income taxes	\$ 6,129	\$ 6,428

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 Corporation 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.

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.

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.

Accounts Receivable, 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. Any excess operating funds at year-end are retained by the Corporation for use in future years.

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.

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.

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.

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

3. **Due To/From 300 WEST 23RD STREET CONDOMINIUM**

Amounts receivable from the Condominium at December 31, 2004 and 2003 consist primarily of insurance premiums paid on behalf of the Condominium as required under the terms of the Corporation's underlying mortgage. The amounts due to the Condominium are for expenses in excess of residential common charges. (See Note 5)

4. **Mortgage Note Payable**

The Corporation's mortgage note payable to ARCS Commercial Mortgage Co., LP (the "Lender") requires monthly payments of \$59,316 applied to interest at 8.11% with the balance to reduction of principal. The mortgage note is for a term of fifteen years maturing on August 1, 2015 and may only be prepaid, subject to penalty, as defined in the mortgage documents.

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

December 31, 2005	\$	79,777
2006		86,590
2007		93,984
2008		100,225
2009		110,569
Thereafter		7,251,552

Under the terms of the mortgage note, the Corporation is required to remit monthly deposits to escrow accounts maintained by the Lender for the payment of real estate taxes, hazard insurance, and repairs and replacements to the common property. In addition, the Corporation is required to maintain a minimum balance in its own capital reserve fund equivalent to one month's maintenance charges.

In connection with its July 2000 refinancing transaction, the Corporation incurred fees of \$222,278 that are being amortized over the fifteen-year term of the mortgage.

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

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

5. **Excess Condominium Expense Reimbursements**

In May 1996, the Association and the commercial unit owner entered into a settlement 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 settlement 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, 2004 and 2003 consisted of the following:

	<u>2004</u>	<u>2003</u>
Wages	\$ 160,865	\$ 145,461
Payroll tax expense	12,344	8,684
Employee benefits	37,067	41,286
Gas	5,324	5,270
Electricity	<u>177,807</u>	<u>126,379</u>
Totals	<u><u>393,407</u></u>	<u><u>327,080</u></u>

6. **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 nor 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 a repair and replacement escrow account with the holder of the first mortgage. The Corporation has also established an account with Dreyfus to accumulate funds for repairs and replacements to the common property. The balance maintained in this account also satisfies the Lender's minimum reserve fund requirement. (Note 4)

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 on page 12 for a schedule of current capital improvement projects.

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

7. **Income Tax Refunds - Section 277 Audits**

During 1991, the Corporation's 1989 and 1990 tax returns were selected for examination by the Internal Revenue Service for application of IRC Section 277. The Corporation's final tax liability for those years was re-determined and the Corporation was required to pay additional Federal income tax. The Corporation was subsequently required under statute to amend its New York State and New York City returns to reflect the Federal changes. Additional taxes were remitted to the State and City. The Corporation appealed the IRS determination and filed claims for refunds with the IRS, New York State and New York City.

In September 2000, the Corporation reached an agreement with the IRS appeals division and was awarded a complete reversal of the 1992 determination. In January 2001, the Corporation received refunds, with interest, for both tax years totaling \$58,903. In March 2001, the Corporation reached an agreement with the New York City Bureau of Conciliation wherein the Corporation received a refund of \$4,181 consisting of all taxes paid, plus interest, arising from the 1989 and 1990 IRS audits.

During 2003, the Corporation received a refund of \$10,780 consisting of all taxes paid plus interest from the New York State Department of Taxation and Finance from the reversal of the 1989 and 1990 audits.

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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

My report on my audit of the basic financial statements of 300 WEST 23RD STREET OWNERS CORP. for the years ended December 31, 2004 and 2003 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Capital Improvements on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Corporation has not presented supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is necessary to supplement, although not required to be a part of, the basic financial statements generally accepted in the United States of America.

Pelham, New York
January 26, 2005



300 WEST 23RD STREET OWNERS CORP.
SCHEDULES OF CAPITAL IMPROVEMENTS
For the Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<u>Capital Improvements</u>		
Exterior masonry and waterproofing (principally H line)	\$ 30,795	\$ 68,323
CCTV equipment	-	5,625
Lintel replacement	-	2,600
Dell computer for superintendent apartment	-	1,175
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	\$ 30,795	\$ 77,723
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