

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2005 AND 2004

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, 2005 and 2004 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
February 8, 2006



300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 12,510	\$ 23,477
Cash and cash equivalents , interest bearing	163,002	240,314
Escrow for real estate taxes (Notes 3 and 4)	572	81,207
Escrow for insurance, repairs and replacements (Notes 4 and 6)	50,911	189,172
Receivables, tenant-shareholders	12,857	18,122
Prepaid expenses	<u>159,862</u>	<u>114,063</u>
Total current assets	399,714	666,355
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	<u>2,851,029</u>	<u>2,578,412</u>
	21,166,419	20,893,802
Less accumulated depreciation	<u>7,659,422</u>	<u>7,241,142</u>
	13,506,997	13,652,660
Other assets:		
Security deposits	6,155	6,155
Mortgage costs, net	<u>161,564</u>	<u>167,932</u>
	<u>\$ 14,074,430</u>	<u>\$ 14,493,102</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
LIABILITIES		
Current liabilities:		
Mortgage note payable, currently due	\$ 86,590	\$ 79,777
Accounts payable and accrued expenses	112,248	36,508
Accrued interest payable	53,375	53,932
Common charges payable	108,880	9,732
Due to 300 WEST 23RD STREET CONDOMINIUM (Note 3)	63,345	135,544
Prepaid maintenance charges	14,217	22,081
Due to tenant-shareholders, tax abatements	<u>59,905</u>	<u>52,597</u>
 Total current liabilities	 498,560	 390,171
Other liabilities:		
Mortgage note payable	7,556,330	7,642,920
Line of credit payable	157,572	-
Refundable security deposits	<u>100,510</u>	<u>61,199</u>
 Total liabilities	 <u>8,312,972</u>	 <u>8,094,290</u>
Commitments and contingencies (Note 6)		
 STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,549 shares and 37,545 shares issued and outstanding in 2005 and 2004, respectively	37,549	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	<u>(7,557,059)</u>	<u>(6,919,701)</u>
 Total stockholders' equity	 <u>5,761,458</u>	 <u>6,398,812</u>
	<u>\$ 14,074,430</u>	<u>\$ 14,493,102</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Maintenance charges	\$ 2,330,623	\$ 2,274,454
Maintenance assessment	114,483	116,899
Late fees	5,400	5,060
Sublet fees	5,666	4,887
Laundry	16,200	16,200
Transfer fees	36,560	25,520
Storage bins	11,707	13,022
Air conditioner surcharge	-	30,640
Investment return	7,498	7,586
Other	13,082	4,851
	<u>2,541,219</u>	<u>2,499,119</u>
Expenses:		
Common charges, operating expenses	753,725	721,519
Common charges, common area improvements	121,892	165,371
Excess Condominium expenses (Note 5)	473,843	393,407
Water and sewer charges	30,453	48,174
Insurance	1,478	1,408
Interest expense	637,293	642,174
Real estate taxes	691,371	713,515
Professional fees	7,190	36,015
Corporation taxes	7,237	5,638
Administrative expenses	9,856	8,513
Other	12,758	2,527
	<u>2,747,096</u>	<u>2,738,261</u>
Income (loss) from operations before depreciation and amortization	(205,877)	(239,142)
Depreciation	(418,280)	(418,096)
Amortization	(13,201)	(13,201)
Net income (loss) for the year	\$ <u>(637,358)</u>	\$ <u>(670,439)</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,545	\$ 37,545
4 shares issued in 2005	<u>4</u>	<u>-</u>
Balance, end of year	<u>\$ 37,549</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	\$ (6,919,701)	\$ (6,249,262)
Net income (loss) for the year	<u>(637,358)</u>	<u>(670,439)</u>
Balance, end of year	<u>\$ (7,557,059)</u>	<u>\$ (6,919,701)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Cash Flows From Operating Activities</u>		
Net income (loss)	\$ (637,358)	\$ (670,439)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	431,481	431,297
Amortization of prepaid interest	2,667	2,667
(Increase) decrease in assets:		
Escrow for real estate taxes	80,635	(34,731)
Escrow for insurance, repairs and replacements	138,261	(39,150)
Receivables, tenant-shareholders	5,265	4,545
Prepaid expenses	(45,799)	30,784
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	75,183	9,033
Common charges payable	99,148	(17,439)
Due to 300 WEST 23RD STREET CONDOMINIUM	(72,199)	20,950
Prepaid maintenance charges	(7,864)	1,542
Due to tenant-shareholders, tax abatements	7,308	3,691
Refundable security deposits	39,311	17,821
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>116,039</u>	<u>(239,429)</u>
<u>Cash Flows From Investing Activities</u>		
Payments for building improvements	<u>(272,617)</u>	<u>(30,795)</u>
<u>Cash Flows From Financing Activities</u>		
Line of credit advances	157,572	-
Issuance of 4 shares of stock	4	-
Deposit to lender for refinancing expenses	(9,500)	-
Mortgage principal payments	<u>(79,777)</u>	<u>(71,782)</u>
<u>Net Cash Provided (Used) By Financing Activities</u>	<u>68,299</u>	<u>(71,782)</u>
Net increase (decrease) in cash	(88,279)	(342,006)
Cash and cash equivalents, beginning of year	<u>263,791</u>	<u>605,797</u>
Cash and cash equivalents, end of year	<u>\$ 175,512</u>	<u>\$ 263,791</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 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.

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.

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

Amounts receivable from the Condominium at December 31, 2005 and 2004 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 common charges and expenses in excess of residential common charges. (See Note 6)

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

4. **Mortgage Note Payable and Subsequent Event – Mortgage Refinancing**

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

Under the terms of the mortgage note, the Corporation was 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 was required to maintain a minimum balance in its own capital reserve fund equivalent to one month's maintenance charges. During 2005, \$125,000 was returned to the Corporation from the repair and replacement escrow to fund capital improvement projects.

In connection with its 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.

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 new mortgage requires monthly payments of approximately \$55,800 applied to interest only at 5.58%. The new mortgage is for a period of ten years maturing March 1, 2016. In addition to the first mortgage, 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. Principal repayment is permitted in strict accordance with the terms of the loan documents.

5. **Line of Credit**

During 2005 the Corporation established a line of credit with the Bank of New York in the maximum amount of \$500,000 to provide interim financing for commencement of the exterior restoration and roof replacement project. The outstanding balance at December 31, 2005 was \$157,572. Additional monies were withdrawn in January 2006. All outstanding amounts were repaid and the credit line terminated upon refinancing the first mortgage note. (See Note 4) The Corporation incurred \$3,171 in interest charges during 2005 on this credit facility.

6. **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.

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

6. **Excess Condominium Expense Reimbursements (Continued)**

Expenses in excess of residential unit common charges for the years ended December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Wages	\$ 177,270	\$ 160,865
Payroll tax expense	11,574	12,344
Employee benefits	63,870	37,067
Gas	6,533	5,324
Electricity	<u>214,596</u>	<u>177,807</u>
Totals	\$ <u>473,843</u>	\$ <u>393,407</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 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 an account with Dreyfus to accumulate funds for repairs and replacements to the common property. The balance maintained in this account also satisfies the prior Lender's minimum reserve fund requirement. (See 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 and Footnote 8 below for a schedule of current capital improvement projects and additional information.

8. **Commitments and Contingencies**

During the year ending December 31, 2005, the Corporation entered into a contract for exterior restoration and roof replacement in the amount of \$728,950 exclusive of architectural and engineering costs. During 2005, approximately \$143,222 was paid to the contractor and \$585,728 remained to be paid. The Corporation is funding the project with proceeds from the new mortgage. (See Note 4)

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

9. **Statement of Cash Flows Additional Disclosure**

Cash paid during the year for:

	<u>2005</u>	<u>2004</u>
Interest	\$ <u>635,183</u>	\$ <u>640,008</u>
Franchise taxes	\$ <u>6,371</u>	\$ <u>6,129</u>

10. **Reclassifications**

Certain amounts from the prior years' financial statements have been reclassified to comply with the format of the current year financial statements presentation.

SUPPLEMENTARY INFORMATION

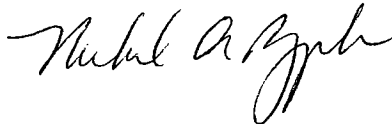
INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

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, 2005 and 2004 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
February 8, 2006



300 WEST 23RD STREET OWNERS CORP.
SCHEDULE OF CAPITAL IMPROVEMENTS
For the Years Ended December 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
<u>Capital Improvements</u>		
Exterior masonry and waterproofing	\$ 259,457	\$ 30,795
Window replacement	8,110	-
Entry stone	<u>5,050</u>	<u>-</u>
	<u>\$ 272,617</u>	<u>\$ 30,795</u>