

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2006 AND 2005

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, 2006 and 2005 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.

Michael A. Rozycki CPA, PLLC

Pelham, New York
February 16, 2007

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 139,740	\$ 12,510
Cash and cash equivalents , interest bearing	2,197,680	163,002
Escrow for real estate taxes (Notes 3 and 4)	-	572
Escrow for insurance, repairs and replacements (Notes 4 and 6)	-	50,911
Receivables, tenant-shareholders	6,593	12,857
Prepaid expenses	-	159,862
	<hr/>	<hr/>
Total current assets	2,344,013	399,714
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	3,695,314	2,851,029
	<hr/>	<hr/>
	22,010,704	21,166,419
Less accumulated depreciation	8,118,793	7,659,422
	<hr/>	<hr/>
	13,891,911	13,506,997
Other assets:		
Security deposits	9,155	6,155
Investment in NCB stock	120,000	-
Mortgage costs, net	105,636	161,564
	<hr/>	<hr/>
	\$ 16,470,715	\$ 14,074,430
	<hr/>	<hr/>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEET

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 228,640	\$ 112,248
Accrued interest payable	57,660	53,375
Common charges payable	44,923	108,880
Due to 300 WEST 23RD STREET CONDOMINIUM (Note 3)	74,802	63,345
Prepaid maintenance charges	16,630	14,217
Due to tenant-shareholders, tax abatements	<u>61,882</u>	<u>59,905</u>
 Total current liabilities	 484,537	 411,970
Other liabilities:		
Mortgage note payable	12,000,000	7,642,920
Line of credit payable	-	157,572
Refundable security deposits	<u>92,694</u>	<u>100,510</u>
 Total liabilities	 <u>12,577,231</u>	 <u>8,312,972</u>
Commitments and contingencies (Note 6)		
 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)	(435,526)
Accumulated deficit	<u>(9,375,033)</u>	<u>(7,557,059)</u>
 Total stockholders' equity	 <u>3,893,484</u>	 <u>5,761,458</u>
	<u>\$ 16,470,715</u>	<u>\$ 14,074,430</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Revenues:		
Maintenance charges	\$ 2,497,271	\$ 2,330,623
Maintenance assessment	130,897	114,483
Late fees	9,100	5,400
Sublet fees	1,736	5,666
Laundry	31,200	16,200
Transfer fees	16,040	36,560
Storage bins	11,295	11,707
Real estate tax refund	38,577	-
Investment return	84,845	7,498
Other	4,838	13,082
	<u>2,825,799</u>	<u>2,541,219</u>
Expenses:		
Common charges, operating expenses	735,549	753,725
Common charges, common area improvements	8,400	121,892
Excess Condominium expenses (Note 5)	489,241	473,843
Water and sewer charges	85,459	30,453
Insurance	5,513	1,478
Interest expense	695,948	637,293
Mortgage prepayment premium	1,114,557	-
Real estate taxes	801,139	691,371
Professional fees	6,960	7,190
Real estate tax certiorari	54,175	-
Corporation taxes	9,630	7,237
Administrative expenses	4,462	9,856
Other	11,705	12,758
	<u>4,022,738</u>	<u>2,747,096</u>
Income (loss) from operations before depreciation and amortization	(1,196,939)	(205,877)
Depreciation	(459,371)	(418,280)
Amortization	(161,664)	(13,201)
Net income (loss) for the year	\$ <u>(1,817,974)</u>	\$ <u>(637,358)</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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,549	\$ 37,545
4 shares issued in 2005	<u>-</u>	<u>4</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	\$ (435,526)	\$ (435,526)
Transactions during the year	<u>(50,000)</u>	<u>-</u>
Balance, end of year	<u>\$ (485,526)</u>	<u>\$ (435,526)</u>
<u>Accumulated Deficit</u>		
Balance, beginning of year	\$ (7,557,059)	\$ (6,919,701)
Net income (loss) for the year	<u>(1,817,974)</u>	<u>(637,358)</u>
Balance, end of year	<u>\$ (9,375,033)</u>	<u>\$ (7,557,059)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Cash Flows From Operating Activities</u>		
Net income (loss)	\$ (1,817,974)	\$ (637,358)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	595,481	431,481
Amortization of prepaid interest	25,554	2,667
Adjustment to treasury shares acquired in 2004	(50,000)	-
(Increase) decrease in assets:		
Escrows with prior mortgage holder	51,483	218,896
Receivables, tenant-shareholders	6,264	5,265
Prepaid expenses	159,862	(45,799)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	120,678	75,183
Common charges payable	(63,957)	99,148
Due to 300 WEST 23RD STREET CONDOMINIUM	11,457	(72,199)
Prepaid maintenance charges	2,413	(7,864)
Due to tenant-shareholders, tax abatements	1,977	7,308
Refundable security deposits	<u>(10,816)</u>	<u>39,311</u>
<u>Net Cash Provided (Used) By Operating Activities</u>	<u>(967,578)</u>	<u>116,039</u>
<u>Cash Flows From Investing Activities</u>		
Payments for building improvements	<u>(844,285)</u>	<u>(272,617)</u>
<u>Cash Flows From Financing Activities</u>		
New mortgage proceeds	12,000,000	-
Repayment of prior mortgage principal	(7,630,998)	-
Line of credit advances (repayment)	(157,572)	157,572
Issuance of 4 shares of stock	-	4
Mortgage refinancing costs	(105,736)	(9,500)
Purchase of NCB stock	(120,000)	-
Mortgage principal payments	<u>(11,923)</u>	<u>(79,777)</u>
<u>Net Cash Provided (Used) By Financing Activities</u>	<u>3,973,771</u>	<u>68,299</u>
Net increase (decrease) in cash	2,161,908	(88,279)
Cash and cash equivalents, beginning of year	<u>175,512</u>	<u>263,791</u>
Cash and cash equivalents, end of year	\$ <u><u>2,337,420</u></u>	\$ <u><u>175,512</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 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.

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.

**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, 2006 and 2005 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)

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 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. The mortgage may only be prepaid, subject to penalty, as defined in the mortgage documents.

The Corporation's prior mortgage note payable to ARCS Commercial Mortgage Co., LP required monthly payments of \$59,316 applied to interest at 8.11% with the balance to reduction of principal.

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 in Note 4 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 2006.

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. An additional \$120,000 was withdrawn in January 2006. All outstanding amounts together with accrued interest thereon were repaid and the credit line terminated upon refinancing the first mortgage note. During 2006 and 2005, the Corporation incurred interest charges of \$1,140 and \$3,171, respectively, under this credit facility.

**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 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, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Wages	\$ 163,082	\$ 177,270
Payroll tax expense	8,640	11,574
Employee benefits	78,638	63,870
Gas	6,427	6,533
Electricity	<u>232,454</u>	<u>214,596</u>
Totals	<u>\$ 489,241</u>	<u>\$ 473,843</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 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. The total adjusted cost of the contract, exclusive of architectural and engineering fees, was \$824,846. At December 31, 2006 the project was substantially complete and approximately \$160,435 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>2006</u>	<u>2005</u>
Interest	\$ <u>1,806,220</u>	\$ <u>635,183</u>
Franchise taxes	\$ <u>10,496</u>	\$ <u>6,371</u>

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, 2006 and 2005 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.

Michael A. Rozycki CPA, PLLC

Pelham, New York
February 16, 2007

300 WEST 23RD STREET OWNERS CORP.
SCHEDULE OF CAPITAL IMPROVEMENTS
For the Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>Capital Improvements</u>		
Exterior masonry and waterproofing	\$ 720,577	\$ 259,457
Window replacement	24,990	8,110
Entry stone	16,740	5,050
Lobby renovations (reallocated from condominium)	41,901	-
Lobby furnishings	24,835	-
Basement and laundry room renovations (in progress)	<u>15,242</u>	<u>-</u>
	<u>\$ 844,285</u>	<u>\$ 272,617</u>