

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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.



Pelham, New York
May 25, 2017

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 303,884	\$ 93,117
Cash and cash equivalents , interest bearing	1,941,148	895,075
Cash designated for real estate taxes	336,560	316,527
Receivables from tenant-shareholders	22,557	22,383
Prepaid expenses	40,493	41,137
Prepaid common charges	181,623	125,837
Total current assets	<u>2,826,265</u>	<u>1,494,076</u>
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	6,338,340	6,238,153
	<u>24,653,730</u>	<u>24,553,543</u>
Less accumulated depreciation	13,253,320	12,711,091
Net real property	<u>11,400,410</u>	<u>11,842,452</u>
Other assets:		
Security deposit account	131,346	107,846
Investment in NCB stock	120,000	120,000
Unamortized mortgage costs	240,599	136,956
Total assets	<u>\$ 14,718,620</u>	<u>\$ 13,701,330</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 37,526	\$ 43,115
Contractors payable for capital projects	125,398	280,134
Accrued interest payable	39,953	57,660
Maintenance revenue received in advance	71,246	83,776
Tax abatement credits due to tenant-shareholders	73,708	95,833
Mortgage note payable due within one year	<u>261,661</u>	<u>-</u>
Total current liabilities	609,492	560,518
Other liabilities:		
Mortgage note payable, net of current portion above	13,049,746	12,000,000
Refundable security deposits	<u>222,025</u>	<u>199,525</u>
Total liabilities	<u>13,881,263</u>	<u>12,760,043</u>
 Commitments and Contingencies - Note 8		
 STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,575 shares and 37,549 shares issued and outstanding in 2016 and 2015, respectively	37,575	37,549
Additional paid-in capital	13,699,943	13,641,469
Additional paid-in capital, treasury stock	75,025	75,025
Treasury stock	(485,526)	(485,526)
Accumulated deficit	<u>(12,489,660)</u>	<u>(12,327,230)</u>
Total stockholders' equity	<u>837,357</u>	<u>941,287</u>
Total liabilities and stockholders' equity	<u>\$ 14,718,620</u>	<u>\$ 13,701,330</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF OPERATIONS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Maintenance charges	\$ 3,568,457	\$ 3,440,480
Maintenance assessments	214,778	214,254
Late fees	4,950	8,270
Sublet fees	7,111	3,860
Move-in fees	3,000	6,000
Laundry	20,400	20,720
Transfer fees	21,490	21,810
Storage bins	47,399	47,930
Interest income and NCB dividend	16,516	9,289
Other income	2,821	2,895
	<u>3,906,922</u>	<u>3,775,508</u>
Expenses:		
Common charges, operating expenses	718,931	690,361
Excess condominium expenses - Note 5	542,916	563,189
Gas, laundry room	3,024	3,776
Repairs and maintenance	95,714	88,700
Water and sewer charges	84,621	87,575
Insurance	4,108	3,902
Interest expense	516,704	678,900
Real estate taxes	1,462,673	1,370,654
Professional fees	24,555	15,589
Real estate tax certiorari	475	550
Corporation taxes	10,974	10,124
Administrative expenses	28,639	27,986
Other	9,960	5,484
	<u>3,503,294</u>	<u>3,546,790</u>
Income from operations before depreciation and amortization	403,628	228,718
Depreciation	(542,229)	(528,268)
Amortization	(23,829)	(11,520)
Net income (loss) for the year	<u>\$ (162,430)</u>	<u>\$ (311,070)</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,549	\$ 37,549
26 shares issued in February 2016	<u>26</u>	<u>-</u>
Balance, end of year	<u>\$ 37,575</u>	<u>\$ 37,549</u>
<u>Additional Paid-In Capital</u>		
Balance, beginning of year	\$ 13,641,469	\$ 13,641,469
26 shares issued in February 2016	<u>58,474</u>	<u>-</u>
Balance, end of year	<u>\$ 13,699,943</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	\$ (12,327,230)	\$ (12,016,160)
Net income (loss) for the year	<u>(162,430)</u>	<u>(311,070)</u>
Balance, end of year	<u>\$ (12,489,660)</u>	<u>\$ (12,327,230)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Cash Flows From Operating Activities</u>		
Net income (loss)	\$ (162,430)	\$ (311,070)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	566,058	539,788
(Increase) decrease in assets:		
Receivables from tenant-shareholders	(174)	87
Prepaid expenses	644	11,383
Prepaid common charges	(55,786)	(125,837)
Security deposits	(23,500)	11,000
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(23,296)	268,006
Common charges payable	-	(54,019)
Maintenance revenue received in advance	(12,530)	(6,727)
Tax abatement credit due to tenant-shareholders	(22,125)	(6,171)
Refundable security deposits	22,500	(4,000)
<u>Net Cash Provided By Operating Activities</u>	<u>289,361</u>	<u>322,440</u>
<u>Cash Flows From Investing Activities</u>		
Additions to building improvements	(100,187)	(517,361)
Building improvements payable	(154,736)	-
<u>Net Cash Used By Investing Activities</u>	<u>(254,923)</u>	<u>(517,361)</u>
<u>Cash Flows From Financing Activities</u>		
Proceeds from new mortgage	13,500,000	-
Repayment of prior mortgage at closing	(12,000,000)	-
Mortgage principal payments during the year	(188,593)	-
Mortgage refinancing costs	(127,472)	(135,000)
Net proceeds from stock issuance	58,500	-
<u>Net Cash Provided (Used) By Financing Activities</u>	<u>1,242,435</u>	<u>(135,000)</u>
Net increase (decrease) in cash	1,276,873	(329,921)
Cash and cash equivalents, beginning of year	1,304,719	1,634,640
Cash and cash equivalents, end of year	<u>\$ 2,581,592</u>	<u>\$ 1,304,719</u>
<u>Supplemental Cash Flow Disclosure</u>		
Cash used for interest	<u>\$ 534,411</u>	<u>\$ 678,900</u>
Cash used for franchise taxes	<u>\$ 11,618</u>	<u>\$ 13,662</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 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.

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 subject to Federal income tax 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 on its capital base using special rates available to cooperative housing corporations. 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.

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.

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.

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

3. Concentration of Credit Risk

The Corporation maintains deposit accounts at financial institutions in New York City. From time to time, deposits in these accounts may exceed federally insured limits (FDIC). The Corporation has not experienced any losses in these accounts and does not deem them to be at risk.

4. Mortgage Note Payable and Line of Credit

In February 2016, the Corporation refinanced its maturing mortgage note in the new principal amount of \$13,500,000 payable to Investors Bank (the "Lender"). The new mortgage note requires 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. The prior mortgage note payable to National Cooperative Bank ("NCB") in the principal amount of \$12,000,000 required monthly payments of approximately \$55,800 applied to interest only at the rate of 5.58%.

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%.

The Corporation's previous credit line with NCB was closed upon refinancing with Investors Bank. There were no amounts outstanding under this credit line at December 31, 2015.

As a condition of NCB extending its 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. As of the date of this report, NCB has yet to repurchase its stock from the Corporation.

In connection with its 2016 refinancing transaction, the Corporation incurred fees of \$262,472 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 mortgages.

5. 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, 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, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Wages	\$ 214,914	\$ 196,446
Payroll tax expense	13,883	24,586
Employee union benefits	131,420	135,521
Electricity	182,699	206,636
	<hr/>	<hr/>
Totals	\$ 542,916	\$ 563,189
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300 WEST 23RD STREET OWNERS CORP.
NOTES TO FINANCIAL STATEMENTS

6. 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 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 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.

7. 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. These amounts may be added by tenant-shareholders to their individual basis of investment in their apartments.

Recent capital contributions per-share approximated the following:

2016	\$ 5.06	2010	\$ 8.64
2015	5.71	2009	3.88
2014	18.46	2008	3.39
2013	5.30	2007	3.67
2012	5.31	2006	3.80
2011	10.51	2005	5.17

8. 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.

In May 2015, the Corporation entered into a contract for façade masonry repairs in the adjusted total amount of \$421,154, exclusive of architectural and engineering fees. The contract was substantially complete at December 31, 2015 and the contractor paid in full during 2016.

9. Stock Issuance

In February 2016, the Corporation received \$65,000 upon the issuance of 26 shares of stock for hallway space appurtenant to an apartment. Monies received pursuant to stock issuances, including treasury stock transactions, are considered capitalization and are not considered taxable income for either financial accounting or income tax reporting purposes.

10. Subsequent Events

The Corporation has evaluated events and transactions occurring between December 31, 2016 and May 25, 2017, and determined there were no events that would require disclosure or recognition in the financial statements, except as noted herein.

SUPPLEMENTARY INFORMATION

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, 2016 and 2015, and have issued a report thereon dated May 25, 2017 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.

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
May 25, 2017

300 WEST 23RD STREET OWNERS CORP.
SCHEDULES OF CAPITAL IMPROVEMENTS, REPAIRS AND MAINTENANCE
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Capital Improvements</u>		
Exterior restoration, in progress	\$ 50,091	\$ 413,516
Security cameras	2,125	5,297
Fire and water damage, net of insurance recovery	37,971	-
Entry door closer	10,000	-
Railing restoration	-	72,450
Generator	-	17,609
Emergency lighting	-	8,489
	<u>100,187</u>	<u>517,361</u>
Totals	\$ 100,187	\$ 517,361

<u>Repairs and Maintenance</u>		
Janitorial supplies and materials	\$ 24,229	32,243
Plumbing	39,499	35,372
Painting, plastering, carpentry, glazing	14,069	3,047
Exterminating	6,673	7,833
Intercom and electrical	1,102	5,459
Lobby, entry, awning	1,143	2,000
Carpeting	8,257	-
Miscellaneous	742	2,746
	<u>95,714</u>	<u>88,700</u>
Totals	\$ 95,714	\$ 88,700