

300 WEST 23RD STREET OWNERS CORP.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 1, 2019

Michael A. Rozycki, CPA, PLLC

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets:		
Cash, operating account	\$ 475,857	\$ 487,669
Cash and cash equivalents , interest bearing	1,123,998	1,359,457
Cash designated for real estate taxes	383,767	2,790
Investment in certificates of deposit	945,833	484,018
Receivables from tenant-shareholders	4,279	48,682
Prepaid expenses	7,800	352,956
Prepaid common charges	<u>139,961</u>	<u>168,162</u>
Total current assets	<u>3,081,495</u>	<u>2,903,734</u>
Real property, at cost:		
Land	3,663,078	3,663,078
Building	14,652,312	14,652,312
Building improvements	<u>6,490,045</u>	<u>6,477,067</u>
	24,805,435	24,792,457
Less accumulated depreciation	<u>14,342,356</u>	<u>13,794,271</u>
Net real property	<u>10,463,079</u>	<u>10,998,186</u>
Other assets:		
Security deposit account	120,346	118,846
Investment in NCB stock	<u>105,159</u>	<u>105,159</u>
Total assets	<u>\$ 13,770,079</u>	<u>\$ 14,125,925</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

BALANCE SHEETS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 29,989	\$ 22,410
Contractors payable for capital projects	40,649	43,059
Accrued interest payable	38,358	39,170
Maintenance revenue received in advance	33,548	47,613
Tax abatement credits due to tenant-shareholders	99,383	86,585
Mortgage note payable due within one year	<u>281,063</u>	<u>271,169</u>
Total current liabilities	522,990	510,006
Other liabilities:		
Mortgage note payable, net of unamortized debt acquisition costs of \$188,105 and \$214,352 in 2018 and 2017, respectively	12,309,951	12,564,520
Refundable security deposits	<u>228,325</u>	<u>219,825</u>
Total liabilities	<u>13,061,266</u>	<u>13,294,351</u>
Commitments and Contingencies - Note 8		
STOCKHOLDERS' EQUITY		
Common stock, 40,000 shares of \$1 par value authorized, 37,575 shares issued and outstanding		
	37,575	37,575
Additional paid-in capital	13,699,943	13,699,943
Additional paid-in capital, treasury stock	75,025	75,025
Treasury stock	(485,526)	(485,526)
Accumulated deficit	<u>(12,618,204)</u>	<u>(12,495,443)</u>
Total stockholders' equity	708,813	831,574
Total liabilities and stockholders' equity	<u>\$ 13,770,079</u>	<u>\$ 14,125,925</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.
STATEMENT OF OPERATIONS
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues:		
Maintenance charges	\$ 3,750,231	\$ 3,658,631
Maintenance assessments	274,071	262,756
Late fees	9,900	6,100
Sublet fees	6,509	9,187
Move-in fees	4,500	6,300
Laundry	20,400	20,400
Transfer fees	11,520	20,640
Alteration fees	15,000	36,300
Storage bins	45,440	44,980
Interest income and NCB dividend	13,247	15,473
Other income	<u>1,401</u>	<u>5,778</u>
	<u>4,152,219</u>	<u>4,086,545</u>
Expenses:		
Common charges, operating expenses	823,228	766,142
Excess condominium expenses - Note 5	533,966	529,441
Gas, laundry room	3,278	3,300
Repairs and maintenance	70,593	81,142
Water and sewer charges	84,191	60,738
Insurance	7,094	6,629
Debt servicing costs	491,038	500,624
Real estate taxes	1,641,908	1,540,695
Professional fees	17,643	13,243
Real estate tax certiorari	550	475
Corporation taxes	13,666	11,747
Administrative expenses	35,990	28,335
Other	<u>3,750</u>	<u>8,866</u>
	<u>3,726,895</u>	<u>3,551,377</u>
Income from operations before depreciation	425,324	535,168
Depreciation of building and improvements	<u>(548,085)</u>	<u>(540,951)</u>
Net (loss) for the year	<u>\$ (122,761)</u>	<u>\$ (5,783)</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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Common Stock</u>		
Balance, beginning of year	\$ 37,575	\$ 37,575
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 37,575</u>	<u>\$ 37,575</u>
<u>Additional Paid-In Capital</u>		
Balance, beginning of year	\$ 13,699,943	\$ 13,699,943
Transactions during the year	<u>-</u>	<u>-</u>
Balance, end of year	<u>\$ 13,699,943</u>	<u>\$ 13,699,943</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	\$ (12,495,443)	\$ (12,489,660)
Net (loss) for the year	<u>(122,761)</u>	<u>(5,783)</u>
Balance, end of year	<u>\$ (12,618,204)</u>	<u>\$ (12,495,443)</u>

See Accompanying Notes to Financial Statements

300 WEST 23RD STREET OWNERS CORP.

STATEMENT OF CASH FLOWS

For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Cash Flows From Operating Activities</u>		
Net (loss) for the year	\$ (122,761)	\$ (5,783)
Adjustments to reconcile net (loss) for the year to net cash provided by operating activities:		
Non-cash: depreciation of building and improvements	548,085	540,951
Non-cash: amortization of debt issuance costs to interest expense	26,247	26,247
(Increase) decrease in assets:		
Receivables from tenant-shareholders	44,403	(26,125)
Prepaid expenses	345,156	(312,463)
Prepaid common charges	28,201	13,461
Security deposits	(1,500)	12,500
Investment in NCB stock	-	14,841
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	6,767	(15,900)
Maintenance revenue received in advance	(14,065)	(23,633)
Tax abatement credit due to tenant-shareholders	12,798	12,877
Refundable security deposits	8,500	(2,200)
<u>Net Cash Provided By Operating Activities</u>	<u>881,831</u>	<u>234,773</u>
<u>Cash Flows From Investing Activities</u>		
Additions to building improvements	(12,978)	(138,727)
Building improvements payable	(2,410)	(82,339)
Investment in certificates of deposit (including reinvested interest)	(1,110,833)	(484,018)
Redemption of certificates of deposit	649,018	-
<u>Net Cash Used In Investing Activities</u>	<u>(477,203)</u>	<u>(705,084)</u>
<u>Cash Flows From Financing Activities</u>		
Mortgage principal payments during the year	(270,922)	(261,365)
Net increase (decrease) in cash	133,706	(731,676)
Cash and cash equivalents, beginning of year	1,849,916	2,581,592
Cash and cash equivalents, end of year	<u>\$ 1,983,622</u>	<u>\$ 1,849,916</u>
<u>Supplemental Cash Flow Disclosure</u>		
Cash used for interest	\$ 465,603	\$ 475,161
Cash used for franchise taxes	\$ 12,433	\$ 12,442

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.

Fair Value of Financial Instruments - Financial instruments include cash and cash equivalents, accounts receivable, other assets, accounts payable and accrued expenses, mortgage notes payable, credit lines payable and other liabilities. The recorded values of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate their fair values based on their short-term nature. The recorded values of debt approximate their fair values as interest approximates market rates.

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. Expenditures for repairs and maintenance are charged to operations as incurred.

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 major repairs and replacements 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 as a cooperative association 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 at prevailing tax rates and methods. 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 in these financial statements.

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

2. Summary of Significant Accounting Policies (Continued)

Long Term Debt and Debt Issuance Costs - In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03), which resulted in the reclassification of debt issuance costs from other assets ("Unamortized mortgage costs") to inclusion as a reduction of reportable long-term debt ("Mortgage note payable") on our balance sheet.

3. Mortgage Note Payable and Line of Credit

The Corporation's debt consists of a first mortgage note in the original principal amount of \$13,500,000, together with a second mortgage line of credit, payable to Investors Bank (the "Lender"). The first mortgage note requires constant 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. Interest expense for the years ending December 31, 2018 and 2017 was \$464,791 and \$474,377, respectfully.

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%. No amounts have been drawn under this credit facility.

In connection with its February 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 mortgage and credit line.

As a condition of NCB extending the Corporation its prior 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. During 2017, NCB repurchased stock in the amount of \$14,841 from the Corporation. As of the date of this report, NCB has not notified the Corporation of its intention to repurchase the remaining \$105,159 of the bank's stock.

4. Excess Condominium Expense Reimbursements

In May 1996, the Condominium Association and the retail 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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Wages	\$ 190,918	\$ 185,900
Payroll tax expense	9,075	9,656
Employee union benefits	144,005	153,184
Electricity	<u>189,968</u>	<u>180,701</u>
Totals	<u>\$ 533,966</u>	<u>\$ 529,441</u>

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

5. 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 recurrent 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.

6. 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 for income tax purposes. These amounts may be added by tenant-shareholders to their individual basis of investment in their apartments. Shareholders should consult their personal tax advisors as to their individual treatment.

Recent capital contributions per-share approximated the following:

2018	\$	7.21	2013	\$	5.30
2017		6.96	2012		5.31
2016		5.02	2011		10.51
2015		5.71	2010		8.64
2014		18.46	2009		3.88

7. 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.

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 its cash to be at risk.

8. Stock Issuance

In February 2016, the Corporation received \$65,000 for the issuance of 26 new 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 taxable income for either financial accounting or income tax reporting purposes.

9. Subsequent Events

The Corporation has evaluated events and transactions occurring between December 31, 2018 and May 1, 2019, and determined there were no events that would require disclosure or recognition in the financial statements, except as noted herein.

SUPPLEMENTARY INFORMATION

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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, 2018 and 2017, and have issued a report thereon dated May 1, 2019 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 1, 2019

Michael A. Rozycki, CPA, PLLC

300 WEST 23RD STREET OWNERS CORP.
SCHEDULES OF CAPITAL IMPROVEMENTS, REPAIRS AND MAINTENANCE
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Capital Improvements</u>		
Concierge desk modifications	\$ 11,843	\$ -
HVAC system upgrade	1,086	21,141
Exterior restoration, net of contract adjustment of \$1,515	49	15,363
Roof exhaust fan	-	71,523
Intercom system	-	30,700
	<u> </u>	<u> </u>
Totals	<u>\$ 12,978</u>	<u>\$ 138,727</u>
 <u>Repairs and Maintenance</u>		
Janitorial supplies and materials	\$ 28,874	25,891
Plumbing	14,612	33,534
Painting, plastering, carpentry, glazing	4,062	849
Exterminating	6,130	6,363
Intercom and electrical	5,815	3,052
Flooring, carpeting	6,525	-
Grounds, flowers	2,506	-
Lobby, entry, awning	-	6,533
Equipment purchase and maintenance	-	3,894
Miscellaneous	2,069	1,026
	<u> </u>	<u> </u>
Totals	<u>\$ 70,593</u>	<u>\$ 81,142</u>