

419 WEST 55TH STREET CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2018

419 WEST 55TH STREET CORPORATION
INDEX TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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The accompanying accountants' audit report and notes to financial statements are an integral part of these financial statements.

SIDNEY REISMAN
Certified Public Accountant
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To the Board of Directors and Shareholders
419 West 55th Street Corporation
New York, New York

I have audited the accompanying balance sheet of 419 West 55th Street Corporation as of December 31, 2018 and the related statements of operations, changes in retained earnings, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

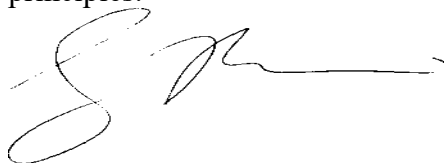
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and 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 audit. I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes 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 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.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 419 West 55th Street Corporation as of December 31, 2018, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.



Brooklyn, New York
November 20, 2019

419 WEST 55TH STREET CORPORATION
BALANCE SHEET
AS OF DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	2,997
Cash-Tax Escrow		32,502
Accounts Receivable - Shareholder		9,691
Prepaid Expenses		104,832
Reserve Fund (Note 2H)		150,475
Total Current Assets		<hr/> 300,497

FIXED ASSETS

Building		10,832,469
Building Improvements		197,717
Building Equipment		62,498
Less: Accumulated Depreciation		<hr/> (5,841,519)
 Total Fixed Assets		 5,251,165
Lease and Finance Costs - Net of Accumulated Amortization (Note 2F)		18,219
TOTAL ASSETS	\$	<hr/> <hr/> 5,569,881

419 WEST 55TH STREET CORPORATION
BALANCE SHEET
DECEMBER 31, 2018
LIABILITIES AND. TENANT SHAREHOLDERS' INVESTMENT

CURRENT LIABILITIES

Accounts Payable-Trade	\$ 24,153
Accrued Expenses	2,984
Miscellaneous Current Liabilities	8,866
Due to Tenants-Real Estate Tax Credits	77,859
Current Portion of Line of Credit Payable- Bank	12,910
Current Portion of Mortgage Payable	12,100
Total Current Liabilities	<u>138,872</u>

LONG-TERM LIABILITIES

Long Term Portion of Line of Credit Payable- Bank	8,810
Long Term Portion of Mortgage Payable(Note 3)	517,554
Total Long-Term Liabilities	<u>526,364</u>

Total Liabilities

665,236

STOCKHOLDER'S EQUITY

Common Stock	10,000
Paid In Capital	10,970,636
Appropriated Surplus-Reserves	57,587
Prior Period Adjustment (Note 6)	(13,379)
Accumulated Deficit	(6,120,199)
Total Shareholders' Equity	<u>4,904,645</u>

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY

\$ 5,569,881

419 WEST 55TH STREET CORPORATION
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018
REVENUES	
Maintenance Charges	\$ 897,876
Financial Income	202,513
Other Income	11,433
Gross Income	1,111,822
 OPERATING EXPENSES	
Rent	433,306
Real Estate Tax	373,734
Heating Fuel	21,515
Electricity/Utilities	23,913
Insurance	30,317
Water/Sewer	15,757
Management Fees	22,800
Legal Fees	1,060
Professional Fees	11,650
Telephone	5,413
Interest Expense	30,790
Elevator Maintenance	11,360
Exterminator	1,780
Rubbish Removal	6,000
Licenses, Fees, and Permits	880
Repairs and Maintenance	35,481
Payroll and Related Costs	37,106
Office Expense	2,623
Corporate Taxes	7,499
Total Operating Expenses	1,072,984
Income before Depreciation and Amortization	38,838
Depreciation and Amortization	409,657
Net Income or (Loss)	\$ (370,819)

419 WEST 55TH STREET CORPORATION
STATEMENT OF CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

Retained Earnings - Beginning of Year	\$ 5,201,269
Net Income or (Loss)	(370,819)
Prior Period Adjustment	<u>(13,379)</u>
Retained Earnings - End of Year	<u><u>\$ 4,817,071</u></u>

419 WEST 55TH STREET CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

Cash Flows from Operating Activities

Net Income or (Loss) before Depreciation and Amortization	\$	(370,819)
Adjustments to Reconcile Excess of Income over Expenditures to		
Net Cash Provided by Operating Activities:		
Depreciation and Amortization		409,657
Prior Period Adjustment (Note 6)		13,379
Changes in Operating Assets and Liabilities:		
Accounts Receivable-Shareholders		(1,572)
Prepaid Expense		(8,652)
Due to Tenants - Real Estate Tax Credits		29,191
Accounts Payable and Other Current Liabilities		(29,547)
Total Adjustments		412,456
Net Cash Provided by Operating Activities		\$41,637

Cash Flows Used by Investing Activities

Fixed Asset Additions		-
Net Decrease in Reserve Fund (Note 2H)		(12,306)
		(12,306)
Net Cash Provided Used by Investing Activities		(12,306)

Cash Flows From Financing Activities

Debt Reduction - Mortgage and Credit Line (Note 3)		(23,928)
Proceeds of Contributions of Paid In Capital		-
		(23,928)
Net Cash Used in Financing Activities		(23,928)

NET INCREASE (DECREASE) IN CASH	\$	5,402
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		30,097
CASH AND CASH EQUIVALENTS, END OF YEAR.	\$	35,499

Supplemental Cash Flows Disclosures

Interest Paid	\$	30,790
Corporate Taxes		7,499

419 WEST 55TH STREET CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

Note 1 - Organization and Purpose

419 West 55th Street Corporation is a cooperative housing corporation incorporated on April 15, 2003 in the State of New York. It owns and operates 24 residential units and one commercial unit.

Note 2 - Summary of Significant Accounting Policies

A) Basis of Accounting — The books and records are maintained, and the accompanying financial statements have been prepared, on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States.

B) Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions the company may undertake in the future, actual results ultimately may differ from the estimates.

C) Cash and Cash Equivalents - The company considers all highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents

D) Maintenance Receivable - Tenant-Shareholders are subject to monthly maintenance to provide funds for the Corporations operating expenses, future capital acquisitions, and major repairs and replacements. Maintenance and other receivables at the balance sheet date represent maintenance and other fees due from tenant shareholders.

No allowance for uncollectible accounts has been provided since management considers all maintenance to be collectible.

E) Fixed Assets - Furniture, equipment and building improvements are capitalized at cost. It is the company's policy to capitalize expenditures for these items in excess of \$1,000. Lesser amounts are expensed. Fixed assets are being depreciated over estimated useful lives of 3 to 27 ¹/₂ years, using the straight-line method.

F) Amortization - Amortization of lease acquisition and financing costs is computed on the straight-line method over the term of the lease and loan, respectively. At December 31, 2018 the balances of amortized lease and finance costs were \$ 13,825 and \$ 4,394, respectively.

For the year ended December 31, 2018, amortization of lease costs was \$164 and amortization of loan costs was \$1,757.

**419 WEST 55TH STREET CORPORATION NOTES
TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

G) Future Major Repairs and Replacements - Accounting principles generally accepted in the United States of America require that Management estimate the remaining lives and replacement costs of the common property. The Company has not presented this information about the estimates of future costs of major repairs and replacements that will be required in the future. Such information, although not a part of the basic financial statements, is required by the American Institute of Certified Public Accountants to supplement the basic financial statements.

H) Reserve Provisions - At December 31, 2018 the Company's reserve balance was \$ 150,475. The Company intends to add to the reserve in the future from any excess funds from operations.

Note 3 - Mortgage & Line of Credit Payable

In September of 2011 the Company obtained a first mortgage in the amount of \$600,000 from New York Community Bank. This loan has a 10-year term with monthly payments based on a 30-year amortization period, bears interest at a fixed rate of 5.375% and matures on October 1, 2021. The loan is secured by an irrevocable assignment to the lender of all of the borrower's right, title and interest in, to and under all present and future leases and rents and tenant security. As of December 31, 2018, the outstanding principal balance of this mortgage was \$529,654 and interest paid amounted to 28,807.

In addition, the company also obtained from New York Community Bank an unsecured line of credit in the amount of \$250,000. The line has a 10-year term and matures on October 1, 2021. The interest rate is adjusted daily based on the Prime Rate plus 2% plus 200 basis points with a minimum rate of 5.50%. The line of credit requires minimum draw-downs of not less than \$10,000. In August 2012 the company borrowed \$93,000 against its unsecured line of credit to pay for the initial costs associated with required facade, air conditioning units and sidewalk repairs. As of December 31, 2018 the outstanding balance of the credit line was \$21,720 and interest paid in 2018 amounted to \$ 1,983.

For the years ended December 31, 2018, interest expense paid on both the mortgage and credit totaled \$30,790.

Note 4 - Leases

The Company is a tenant of the land under a lease dated October 2, 2002 (the Ground Lease) executed with the property's owner, 419 West 55th Street Building Owners LLC. 419 West 55th Street Corp. assumed the lease from 419 West 55th Street LLC on June 9, 2004, since 419 West 55th Street Corp. was not in existence at the inception of the lease. The term of the lease is approximately ninety-nine (99) years and expires on August 31, 2101. Under the terms of the lease, the Company has no right to renew or extend the lease. In addition, during the term of the lease the owner cannot sell its fee interest in and to the property to any third party unless the owner first offers to sell to the Company. If the owner does notify the Company of its intent to sell to a third party, the Company has sixty (60) days to enter into an agreement of sale with the owner. This period can be extended if both parties agree. If at the conclusion of the sixty-day negotiation period between the owner and the Company, an agreement to sell or extend the negotiation period has not been reached, the Company must notify the owner of its final offer to purchase the property. If, after receiving the Company's final offer, the owner receives an offer from a third party, the owner must give the Company the right of first refusal.

**419 WEST 55TH STREET CORPORATION NOTES
TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

Upon the sale of the property to a third party or upon the expiration of the lease term, the Company's rights of first offer or of first refusal will expire. The base rent payable under the ground lease is subject to a Consumer Price Index (CPI) adjustment each year based on the CPI index at December 31 of the immediately preceding calendar year. The base rent and period for computing annual rent adjustments are \$310,000 and September 1, 2002, respectively. The lease defines specific formulas applicable to three lease periods: January 1, 2006 to December 31, 2052, January 1, 2053 to December 31, 2077 and January 1, 2078 to August 31, 2101.

The Company is responsible for the costs of all necessary repairs to the building and must maintain proper insurance coverages including general liability, workers' compensation, disability, benefits and rent insurance. The Company is also responsible for paying all assessed real estate taxes on the land and building. However, because the land is not owned by the Company the shareholders of the Company are not entitled to a tax deduction on their individual income tax returns for the real estate taxes applicable to land. Rent expense for the year ended December 31, 2018 totaled \$ 433,306. Effective January 1, 2019, monthly rent is \$36,026.

Note 5 - Prior Period Adjustment

A prior period adjustment in the amount of \$13,379 has been made to record additional professional fees that were not recorded in prior periods and deemed recordable by management at December 31, 2018.

Note 6 - Income Taxes

The Company is a qualifying housing cooperative under Section 216 of the Internal Revenue Code and prepares its corporate tax returns in accordance with Subchapter T of the Code. Subchapter T requires allocations of patronage and non-patronage income and expenses. In general, any income from shareholders is considered patronage income and any commercial rents are considered non-patronage income. If the cooperative has patronage and non-patronage income, expenses attributable to generating that income must be allocated between the two.

**419 WEST 55TH STREET CORPORATION NOTES
TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2018**

The provision for income taxes for the year ended December 31, 2018 includes New York State tax based on capital base tax and New York City minimum taxes.

The Company is allowed under the Internal Revenue Code to carryforward net operating losses to future years.

At December 31, 2018, the Company has net operating loss carryforwards of approximately \$ 610,000 which will expire at various dates from 2023 through 2036. These carryforward losses expire as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
2023	\$ 7,000
2024	16,500
2025	20,000
2026	20,000
2027	18,000
2028	28,000
2030	11,000
2031	19,000
2032	40,000
2033-2036	430,500
	\$ 610,000

The tax effect of the carryforwards give rise to a deferred tax asset amounting to approximately \$ 125,000. The Company believes that there is a possibility that the benefits of the net operating losses might not be realized and has provided a valuation allowance for the full amount of the deferred tax asset. As a result of the 2017 Federal Tax Cuts & Jobs Act legislation, the tax rates were reduced from a maximum of 35% to a flat 21% rate. The rate reduction is effective on January 1, 2018. The Company has adjusted the deferred tax asset balance as of December 31, 2018 to \$ 125,000. As a result of the full valuation allowance on the net deferred tax assets, there was a corresponding adjustment to the valuation allowance for the same amount. Therefore, there is no impact on the Company's 2018 earnings for the law change.