

THE 534 WEST 42ND STREET CONDOMINIUM

**FINANCIAL STATEMENTS
(TAX BASIS)**

DECEMBER 31, 2021

DRAFT

**THE 534 WEST 42ND STREET CONDOMINIUM
FINANCIAL STATEMENTS
(TAX BASIS)**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
The 534 West 42nd Condominium
225 West 35th Street - 15th Floor
New York, NY 10001

We have reviewed the accompanying financial statements of 534 West 42nd Street Condominium (a corporation), which comprise the statement of assets, liabilities and unit owners' equity (tax basis) as of December 31, 2021, and the related statement of revenues and expenses and changes in retained earnings (tax basis), and statement of cash flows (tax basis) for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the condominium's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the company uses for income tax purposes; this includes determining that the basis of accounting the company uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the income tax basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of 534 West 42nd Street Condominium and to meet our other ethical responsibilities in accordance with the relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the basis of accounting the corporation uses for income tax purposes.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the basis of accounting the company uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Other Matters

Management has omitted the supplementary information about future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 financial reporting for placing the basic statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

October 10, 2022
Woodbury, New York

THE 534 WEST 42ND STREET CONDOMINIUM
STATEMENT OF ASSETS, LIABILITIES AND UNIT OWNERS' EQUITY
(TAX BASIS)
DECEMBER 31, 2021

EXHIBIT A

ASSETS

Current Assets

Cash and cash equivalents	\$ 38,370
Restricted cash	44,301
Members' assessment receivable	3,318
Total current assets	85,989

Property and Equipment, net of accumulated
depreciation of \$33,197

2,697

Total Assets \$ 88,686

LIABILITIES AND UNIT OWNERS' EQUITY

Current Liabilities

Accounts payable and accrued expenses	4,850
Total current liabilities	4,850

Unit Owners' Equity

Retained earnings	\$ 83,836
Total Liabilities and Owners' Equity	<u>\$ 88,686</u>

See independent accountant's review report and accompanying notes to financial statements.

THE 534 WEST 42ND STREET CONDOMINIUM
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN RETAINED EARNINGS
(TAX BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2021

EXHIBIT B

Revenues

Members' assessment	\$ 113,668
Commercial rent	8,240
Other revenue	1,000
Total revenues	122,908

Administrative Expenses

Management fees	9,000
Professional fees	4,800
Telephone	6,322
Office expenses	3,566
Insurance	14,332
Taxes and licenses	295
Total administrative expenses	38,315

Operating Expenses

Salaries	13,200
Utilities	25,035
Security	12,964
Water and sewer	2,370
Payroll taxes	1,347
Total operating expenses	54,916

Maintenance Expenses

Plumbing	5,145
Fire extinguishers	421
Total maintenance expenses	5,566

Repairs

Elevator	7,673
Other supplies and repairs	25,585
Total repairs	33,258

Total Expenses

132,055

**Excess of expenses over revenues
before other income (expenses)**

(9,147)

See independent accountant's review report and accompanying notes to financial statements.

THE 534 WEST 42ND STREET CONDOMINIUM
STATEMENT OF REVENUES AND EXPENSES AND RETAINED EARNINGS
(TAX BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2021
(continued)

EXHIBIT B (continued)

Other income (expense)	
Interest income	3
Depreciation	<u>(2,357)</u>
Excess of expenses over revenues	(11,501)
Retained earnings - January 1, 2021	<u>95,337</u>
Retained earnings - December 31, 2021	<u><u>\$ 83,836</u></u>

See independent accountant's review report and accompanying notes to financial statements.

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STATEMENT OF CASH FLOWS
(TAX BASIS)
DECEMBER 31, 2021

EXHIBIT C

Cash Flows from Operating Activities	
Excess of expenses over revenues	\$ (11,501)
Adjustment to reconcile net revenues over expenses to net cash used in operating activities:	
Depreciation	2,357
Increase (decrease) in cash attributable to changes in assets and liabilities:	
Members' assessment receivable	(1,373)
Prepaid expenses	5,351
Accounts payable and accrued expenses	1,091
Net cash used in operating activities	<u>(4,075)</u>
Net decrease in cash and cash equivalents	(4,075)
Cash and cash equivalents - beginning of year	<u>86,746</u>
Cash and cash equivalents - end of year	<u>\$ 82,671</u>

Reconciliation of cash and cash equivalent and restricted cash to balance sheet:

Cash and cash equivalent	\$ 38,370
Restricted cash	44,301
Total cash and cash equivalents and restricted cash	<u>\$ 82,671</u>

See independent accountant's review report and accompanying notes to financial statements.

**THE 534 WEST 42ND STREET CONDOMINIUM
NOTES TO FINANCIAL STATEMENTS
(TAX BASIS)
DECEMBER 31, 2021**

NOTE 1- NATURE OF ORGANIZATION

The 534 West 42nd Street Condominium (“the Condominium”) is an association of condominium owners organized on September 11, 2008 pursuant to Article 9-B of the Real Property Law of the State of New York for the purpose of operating and maintaining the common property of the residential units of 534 West 42nd Street, New York, NY. The Condominium consists of seven residential units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

The accompanying financial statements have been prepared on the income tax basis (accrual method) of accounting and are not intended to present financial position and results of operations in accordance with generally accepted accounting principles. The principal differences in presenting these financial statements on the income tax basis versus generally accepted accounting principles are as follow:

Under U.S. GAAP, in accordance with ASC 310, accounts receivable from third parties are evaluated for collectability. If collectability is not assured, an allowance for doubtful accounts may be recognized to write down the accounts receivable to its net realizable value. For federal income tax purposes, the specific charge-off method is used to deduct bad debt expenses related to the receivables when collection efforts have been exhausted and the receivable is deemed worthless. There is no allowance for doubtful accounts for federal income tax purposes

Under U.S. GAAP, in accordance with ASC 606, the performance obligation for revenues from operating assessments are recorded on a periodic basis throughout the fiscal year and the performance obligations from revenues from replacement reserve assessments is recognized when the related expenditure is made. Unspent replacement reserves (and special assessments) are generally presented as a contract liability on the balance sheet. For federal income tax purposes, the revenues related to replacement reserves are recognized as contributed capital.

Under U.S. GAAP, in accordance with ASC 360, capital expenditures are required to be depreciated to estimated salvage value over the estimated useful life of the asset. For federal income tax purposes, the Company is required to use statutory accelerated cost recovery periods instead of useful lives using the Modified Accelerated Cost Recovery System (“MACRS”) as prescribed by the Internal Revenue Code (“IRC”). Also, the Association can elect to treat up to a prescribed maximum amount of qualifying property as a deduction in the year

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DECEMBER 31, 2021**

of acquisition rather than as a capital expenditure and can also elect to claim a special first year accelerated depreciation deduction.

Under U.S. GAAP, in accordance with ASC 740, the Condominium would be required to evaluate its uncertain tax positions and recognize a liability with respect to the likely outcome of each uncertain tax position. This evaluation is not required for federal income tax purposes.

US GAAP requires 10% capital improvement reserve fund to be recorded as a liability until the funds are expended, in contrast the income tax basis of accounting records it as shareholders' equity.

Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

Members' Assessments/Members' Assessments receivable

Condominium members are subject to regular monthly assessments to provide funds for the Condominium's operating expenses based upon the annual budget as approved by the Boards of Directors. Members could also be subject to special assessments for capital acquisitions and major repairs and replacements, if necessary. It is the opinion of the Board of Directors that the Condominium will collect any balances due from unit owners who have delinquent assessments and, accordingly, no allowance for uncollectible amounts have been provided as of December 31, 2021.

Depreciation

The Condominium's fixed assets are depreciated using accelerated methods over the applicable estimated useful lives of the assets.

Concentration of Credit Risk

The Corporation maintains its cash balances in accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes there is little or no exposure to any significant credit risk.

Cash and cash equivalents

The Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Income Taxes

The Condominium may be taxed either as a homeowners' association or as a regular corporation. For the year ended December 31, 2021, the Condominium elected to file its income tax return as a homeowners' association, in accordance

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with Internal Revenue Code 528. Under that Section, the Condominium is not taxed on uniform assessments to members and other income received from the Condominium members solely as a function of their membership in the Condominium. The Condominium is taxed at a rate of 30% on its investment income and other non-exempt function income. For the year ended December 31, 2021, there was no material income tax expense.

Use of Estimates

The preparation of financial statements in conformity with the tax basis of accounting (accrual method) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could cause our reported net income to vary significantly from period to period, including but not limited to, the potential future effects of the novel coronavirus (“COVID-19”).

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2021:

Virtual Doorman Security Cameras	\$ 9,662
Boiler	29,647
Less: Accumulated depreciation	<u>(36,612)</u>
	<u><u>\$ 2,697</u></u>

NOTE 4 - MANAGEMENT AGREEMENT

Livingston Management Services Inc. is the managing agent for the condominium. Per the agreement with Livingston Management Services Inc, annual fees of \$9,000 is payable in equal monthly installments of \$750. The agreement will continue on an annual basis with the same aforementioned terms. The agreement is cancellable by either party with written notice.

NOTE 5 - RESTRICTED CASH AND RESERVE FUNDS

At inception, the Condominium set aside \$13,500 into a Reserve Account of approximately 11% of the entire budget. The funds are to be used as a reserve to pay for periodic capital replacements or repairs, as so required by the Board of Directors of the Condominium. During 2021, there was \$10,078 authorized to be used from the reserve. On December 31, 2021, the Reserve Fund had a balance of \$44,301.

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DECEMBER 31, 2021

NOTE 6 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Condominium has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of cost of major repairs and replacements that may be required in the future. The Condominium's offering plan requires that funds be accumulated for future major repairs and replacements. Contributions to the funds are based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, any amounts accumulated in the funds may not be adequate to meet all future needs for major repairs and replacements.

NOTE 7 - TAX UNCERTAINTIES

The Condominium's policy is to record interest expense and penalties on tax assessments in operating expenses. There are no accrued interest and penalties for the year ended December 31, 2021. The Condominium's Federal and state tax returns are open for examination for the years after 2018.

NOTE 8 - SUBSEQUENT EVENTS

In preparing these financial statements, the Condominium has evaluated events and transactions for potential recognition or disclosure through October 10, 2022, which represents the date these financial statements were available to be issued.