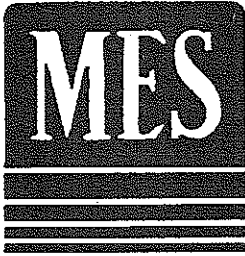


Westgate House, Inc.
A Cooperative Housing Corporation
Financial Statements
For the Years Ended
December 31, 2011 and 2010



MINDY EISENBERG STARK CPA • CFE

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INDEPENDENT AUDITOR'S REPORT

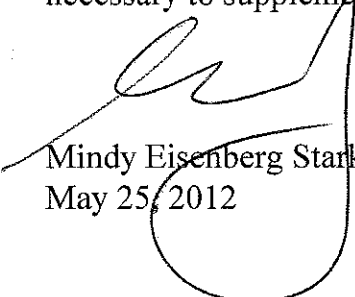
To the Board of Directors and Shareholders of
Westgate House, Inc.
A Cooperative Housing Corporation
New York, New York

I have audited the accompanying balance sheets of Westgate House, Inc. as of December 31, 2011 and 2010 and the related statements of income, expenses, deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 audits provide 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 Westgate House, Inc. as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Westgate House, Inc. has not promulgated the 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 part of the basic financial statements.


Mindy Eisenberg Stark, CPA, CFE
May 25, 2012

Westgate House, Inc.
A Cooperative Housing Corporation
Balance Sheets
December 31, 2011 and 2010

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 202,617	\$ 209,302
Maintenance and assessment receivable	35,318	41,048
Miscellaneous receivable	9,019	8,300
Real estate tax refund receivable	142,706	-
Real estate tax escrow	21,686	20,398
Prepaid expenses	112,506	77,174
Total Current Assets	523,852	356,222
 FIXED ASSETS:		
Land	887,733	887,733
Building improvements (net of accumulated depreciation of \$453,391 in 2011 and \$367,358 in 2010)	2,019,991	2,011,838
Furniture, fixtures and equipment (net of accumulated depreciation of \$18,692 in 2011 and \$12,670 in 2010)	19,518	16,618
Total Fixed Assets	2,927,242	2,916,189
 OTHER ASSETS:		
Deferred mortgage refinancing expense	41,118	47,150
Deposit for capital improvement	31,650	-
Total Other Assets	72,768	47,150
Total Assets	\$ 3,523,862	\$ 3,319,561

The accompanying letter and notes are an integral part of these financial statements

MINDY EISENBERG STARK CPA • CFE

Westgate House, Inc.
A Cooperative Housing Corporation
Balance Sheets
December 31, 2011 and 2010

LIABILITIES AND TENANT SHAREHOLDERS' EQUITY

	<u>2011</u>	<u>2010</u>
CURRENT LIABILITIES:		
Accounts payable	\$ 56,428	\$ 58,342
Interest payable	14,816	14,677
Due to sponsor for SCRIE	19,962	7,114
Prepaid maintenance	4,921	11,497
Due to shareholders	11,358	9,892
Current portion of mortgage payable	38,018	36,782
Total Current Liabilities	<u>145,503</u>	<u>138,304</u>
 LONG TERM LIABILITIES:		
Long term portion of mortgage payable	2,310,113	2,347,692
Long term portion of mortgages payable	900,000	800,000
Total Long Term Liabilities	<u>3,210,113</u>	<u>3,147,692</u>
Total Liabilities	<u>3,355,616</u>	<u>3,285,996</u>
 TENANT SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value, 20,000 shares authorized, 9,489 shares issued and outstanding	9,489	9,489
Additional paid-in capital	3,097,243	3,032,640
Deficit	(2,938,486)	(3,008,564)
Total Tenant Shareholders' Equity	<u>168,246</u>	<u>33,565</u>
Total Liabilities and Tenant Shareholders' Equity	<u>\$ 3,523,862</u>	<u>\$ 3,319,561</u>

The accompanying letter and notes are an integral part of these financial statements

MINDY EISENBERG STARK CPA • CFE

Westgate House, Inc.
A Cooperative Housing Corporation
Statements of Income, Expenses and Deficit
For the Years Ended December 31, 2011 and 2010

INCOME:	<u>2011</u>	<u>2010</u>
Maintenance income	\$ 1,213,598	\$ 1,123,493
Less: Mortgage amortization	(36,343)	(34,242)
Co-op real estate tax abatement	<u>(57,783)</u>	<u>(54,937)</u>
Net Maintenance Income	1,119,472	1,034,314
Laundry	10,500	10,500
Miscellaneous income	17,427	22,046
Assessment income	57,907	54,573
Real estate tax refunds (current year)	18,072	-
Interest income	<u>2,374</u>	<u>4,393</u>
Total Income	<u>1,225,752</u>	<u>1,125,826</u>
 OPERATING EXPENSES:		
Real estate taxes	287,256	270,829
Insurance	62,484	51,288
Mortgage interest	173,440	173,751
Repairs, maintenance and supplies	87,399	88,187
Payroll and related expenses	212,551	203,235
Corporate taxes	3,221	2,996
Utilities	24,372	24,953
Fuel	177,099	138,226
Management fees	40,000	40,000
Water	45,575	42,450
Professional fees	53,512	23,852
Miscellaneous	<u>15,312</u>	<u>15,239</u>
Total Operating Expenses	<u>1,182,221</u>	<u>1,075,006</u>
 Excess of income over (expenses) before depreciation, amortization and non-recurring items		
	<u>43,531</u>	<u>50,820</u>
 Depreciation and amortization expense		
	(98,087)	(89,600)
Prior period adjustment	-	(10,244)
Real estate tax refunds (prior years)	168,883	-
Certiorari expense	<u>(44,249)</u>	<u>-</u>
Net income (loss)	<u>70,078</u>	<u>(49,024)</u>
 Deficit, beginning of year		
	<u>(3,008,564)</u>	<u>(2,959,540)</u>
Deficit, end of year	<u><u>\$(2,938,486)</u></u>	<u><u>\$(3,008,564)</u></u>

The accompanying letter and notes are an integral part of these financial statements

MINDY EISENBERG STARK CPA • CFE

Westgate House, Inc.
A Cooperative Housing Corporation
Statement of Cash Flows
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Net income before depreciation and amortization	\$ 168,165	\$ 40,576
Adjustment to reconcile net income to net cash provided by operating activities:		
(Increase) Decrease in Assets:		
Maintenance and assessment receivable	5,730	(9,819)
Miscellaneous receivable	(719)	51,783
Real estate tax refund receivable	(142,706)	-
Real estate tax escrow	(1,288)	(20,248)
Prepaid expenses	(35,332)	(4,149)
Increase (Decrease) in Liabilities:		
Accounts payable	(1,914)	(286,076)
Interest payable	139	(174)
Due to shareholders	1,466	2,265
Due to sponsor	12,848	(11,074)
Security deposit payable	-	(1,000)
Prepaid maintenance	(6,576)	4,705
Net cash used by operating activities	<u>(187)</u>	<u>(233,211)</u>
Cash Flows From Investing Activities:		
Capital expenditures	<u>(103,108)</u>	<u>(76,287)</u>
Net cash used by investing activities	<u>(103,108)</u>	<u>(76,287)</u>
Cash Flows From Financing Activities:		
Proceeds from line of credit	100,000	-
Prepaid mortgage costs	-	(27,089)
Flip fees	28,260	36,000
Additional paid-in capital-mortgage amortization	36,343	34,242
Payment of mortgage indebtedness	(36,343)	(34,242)
Deposit for capital improvement	(31,650)	-
Net cash provided by financing activities	<u>96,610</u>	<u>8,911</u>
Net decrease in cash	(6,685)	(300,587)
Cash at beginning of year	209,302	509,889
Cash at end of year	<u>\$ 202,617</u>	<u>\$ 209,302</u>

SUPPLEMENTAL DISCLOSURES:

Interest paid	\$ 173,302	\$ 173,924
Taxes paid	\$ 3,221	\$ 2,996

The accompanying letter and notes are an integral part of these financial statements

MINDY EISENBERG STARK CPA • CFE

Westgate House, Inc.
A Cooperative Housing Corporation
Notes to the Financial Statement
December 31, 2011 and 2010

NOTE 1 - CORPORATE ORGANIZATION

Westgate House, Inc. (the Corporation) is a cooperative housing corporation, incorporated in the State of New York on June 23, 1983, to acquire title to land and building located at 860/870 West 181st Street in New York, New York. Westgate House consists of two buildings. There are 126 residential units in total with no offices or garages. The primary purpose of the corporation is to manage the operation of the building and maintain the common elements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - For the purposes of the financial statements, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Depreciation - The building was being depreciated over 18 years and is fully depreciated, building improvements are being depreciated over 27 years using the straight line method and furniture, fixtures and equipment are being depreciated over 5 years.

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses.

Amortization - Deferred mortgage refinancing expenses are being amortized over the term of the mortgage.

Sublet Fees - The Board does not generally permit subletting. Consent is granted for a limited time and only after the shareholder has occupied the apartment for a period of three years. There is a surcharge for apartments which are subleased in their entirety equal to 25% of the annual maintenance charge.

Maintenance Income - Tenant shareholders pay monthly charges to provide funds for the Corporation's operating expenses and is based on an annual budget determined by the Board of Directors. Maintenance also includes amounts used to amortize the mortgage. In the income statement, these amounts are subtracted from maintenance as capital contributions and are credited to additional paid-in capital. The Corporation retains excess operating funds,

Westgate House, Inc.
A Cooperative Housing Corporation
Notes to the Financial Statement
December 31, 2011 and 2010

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

if any, at the end of the operating year, for use in future operating periods. The Board of Directors approved a 6% increase effective January 1, 2010, a 10% increase August 1, 2010, a 2.5% increase February 1, 2011 and a 5% increase January 1, 2012.

Assessment Income - The Board of Directors approved assessments effective April 1, 2011 at \$6.10 per share and April 1, 2010 at \$5.75 per share.

Subsequent Events - Subsequent events have been evaluated through May 25, 2012 which is the date the financial statements were issued.

NOTE 3 - MORTGAGE PAYABLE AND LINE OF CREDIT

In March, 2007, the Corporation refinanced its first mortgage and line of credit with a new first mortgage with NCB. The new first mortgage in the amount of \$2,500,000 carries a fixed interest rate of 5.89% per annum with an amortization period of 360 months. The mortgage calls for monthly payments of \$14,812 to be applied first to interest. The loan term is 10 years and may not be prepaid in whole or in part until May 1, 2011. Thereafter, the loan may be prepaid together with a prepayment fee based upon a yield maintenance formula.

In addition, the Corporation obtained a second mortgage line of credit for \$1,000,000. The line of credit is coterminous with the first mortgage and the interest rate is yield, plus 100 basis points with repayments in amounts of not less than \$10,000 without penalty on thirty (30) days written notice. Starting in the 61st month after the first drawdown, the monthly payments shall consist of principal and interest sufficient to liquidate the loan over a period of 360 months. As of the balance sheet date, \$800,000 had been drawn on the line of credit for capital improvements.

In September, 2010, the Corporation obtained a third mortgage line of credit for \$500,000. The line of credit is coterminous with the first mortgage and second mortgage line of credit and the interest rate is 5%. At the balance sheet date, nothing had been drawn on this credit line.

NOTE 4 - MAINTENANCE RECEIVABLE

Three apartments were in significant arrears at December 31, 2011 in the total amount of \$20,605. One of the arrears was paid in full in 2012 and legal action has been taken on the other two.

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Westgate House, Inc.
A Cooperative Housing Corporation
Notes to the Financial Statement
December 31, 2011 and 2010

NOTE 5 - LAUNDRY INCOME

The Corporation entered into a lease with Sebco Corp. for the right to install coin metered laundry equipment on the premises effective 2003 for a term of seven years at an annual rental income of \$12,000. The lease was modified October 1, 2008 and expires December 31, 2012; the monthly rental is \$875 or \$10,500 annually.

NOTE 6 - FUTURE REPAIRS AND REPLACEMENTS

The Corporation has not promulgated a study to determine the remaining useful lives of the components of the building and current estimates of costs of major repairs and replacements that may be required. If funds for these projects are required, the corporation has the right to borrow, including using lines of credit, utilize the reserve fund, increase maintenance charges, levy a special assessment, or delay the repairs or replacement until funds are available. The effect on future assessments has not been determined.

NOTE 7 - RELATED PARTIES

As of December 31, 2011, the holder of unsold shares, 860-870 Realty LLC, held shares allocated to seventeen of the one hundred and twenty-five apartments (see Note 4). As a result, the holder of unsold shares is responsible for approximately \$11,972 (16%) of the monthly maintenance.

NOTE 8 - FLIP FEE

The Amended and Restated Proprietary Lease contains a provision for the payment of transfer fee (Flip Fee) equal to three (3%) percent of the gross consideration received by any shareholder for the sale or transfer of any interest in the shares and lease held by the shareholder, except for transfer of shares by the Holder of Unsold Shares and for assignment of the right to purchase shares and leases to a third party/assignees. Flip fees are added to the reserve account and used for future capital projects. As such, they are not considered income, but are added to the Additional Paid in Capital section of the Balance Sheet.

NOTE 9 - REAL ESTATE TAX REFUND RECEIVABLE AND REAL ESTATE TAX REFUNDS

The Corporation challenged the real estate tax assessment for the years 2003/2004 to 2011/2012. There was a successful outcome resulting in a refund of \$142,706 (net of legal fees). The amounts have been reflected on the financial statement the year ended December 31, 2011 but the actual refund was received in April of 2012.

Westgate House Inc.
A Cooperative Housing Corporation
Notes to the Financial Statement
December 31, 2011 and 2010

NOTE 10 - MAJOR CONTRACT

In June, 2011, the Corporation entered into a contract with Precision Elevator Corp. for the modernization of two passenger elevators in the total amount of \$211,000. A 15% deposit of \$31,650 was paid.