

WEST GATE HOUSE, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
AND
INDEPENDENT AUDITOR'S REPORT

SHAVELSON, NEUMAN & COMPANY LLP

SHAVELSON, NEUMAN & COMPANY, LLP

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
West Gate House, Inc.
860 West 181st Street
New York, NY 10033

We have audited the accompanying financial statements of West Gate House, Inc. which comprise the balance sheet as of December 31, 2012, and the related statements of operations and accumulated (deficit), 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

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Gate House, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the information about the estimates of future costs of 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 financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.



SHAVELSON, NEUMAN & COMPANY, LLP
Certified Public Accountants

April 17, 2013

WEST GATE HOUSE, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2012

ASSETS

CURRENT ASSETS:

Cash and cash equivalents (Note 2C)	\$ 56,820
Real estate tax escrow account	158,052
Accounts receivable from tenants (Note 2E)	60,131
Prepaid insurance	20,967
Fuel inventory (Note 2G)	<u>7,000</u>
Total Current Assets	<u>302,970</u>

INVESTMENTS:

Capital reserve funds (Note 3)	<u>232,241</u>
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COMMON PROPERTY:

Land, building, improvements and equipment (Notes 2A and 4)	5,953,961
Less: accumulated depreciation	<u>(2,852,637)</u>
Net common property	<u>3,101,324</u>

OTHER ASSETS:

Deferred mortgage refinancing costs, net (Note 5)	<u>35,086</u>
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TOTAL ASSETS \$ 3,671,621

The accompanying notes are an integral part of these financial statements.

WEST GATE HOUSE, INC.
BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2012

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

Mortgage note - current portion (Note 5)	\$ 39,000
Accounts payable	165,348
Prepaid maintenance	31,564
Due to shareholders (Note 12)	43,829
Due to Sponsor for SCRIE	<u>18,859</u>
Total Current Liabilities	<u>298,600</u>

LONG TERM LIABILITIES:

Mortgage note payable - long term (Note 5)	2,270,958
Line of credit payable (Note 5)	<u>1,000,000</u>
Total Long Term Liabilities	<u>3,270,958</u>
Total Liabilities	<u>3,569,558</u>

COMMITMENTS: (Note 6)

SHAREHOLDERS' EQUITY:

Common stock, \$1.00 par value, 20,000 shares authorized, 9,489 shares issued and outstanding	9,489
Additional paid-in capital (Note 8)	3,157,093
Accumulated (deficit)	<u>(3,064,519)</u>
Total Shareholders' Equity	<u>102,063</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ <u>3,671,621</u>

The accompanying notes are an integral part of these financial statements.

WEST GATE HOUSE, INC.
STATEMENT OF OPERATIONS AND ACCUMULATED (DEFICIT)
FOR THE YEAR ENDED DECEMBER 31, 2012

INCOME:

Maintenance charges (Note 2E)	\$ 1,259,112
Special assessment (Note 9)	52,867
Storage fees	5,041
Interest income	1,093
Laundry income	10,500
Sublet fees	13,507
Other income	<u>12,053</u>
Total Income	<u>1,354,173</u>

EXPENSES:

Payroll and related benefits	219,363
Utilities	212,970
Water and sewer	56,436
Repairs and maintenance	159,803
Insurance	66,787
Legal and audit fees	74,800
Management fee (Note 6)	40,000
Real estate taxes	351,124
Corporate taxes and miscellaneous	16,341
Mortgage interest and line of credit interest	<u>177,073</u>
Total Expenses	<u>1,374,697</u>
(Loss) before depreciation and amortization	(20,524)
Less: Depreciation	99,477
Amortization	<u>6,032</u>
Net (loss)	(126,033)
Accumulated (deficit), beginning of year	<u>(2,938,486)</u>
Accumulated (deficit), end of year	\$ <u><u>(3,064,519)</u></u>

The accompanying notes are an integral part of these financial statements.

WEST GATE HOUSE, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:

Net (loss)	\$ (126,033)
Adjustments to Reconcile Net (Loss) to Net Cash Provided by Operating Activities:	
Depreciation and amortization	105,509
Interest earned in reserve accounts	(1,022)
Changes in Assets and Liabilities:	
(Increase) in accounts receivable	(24,813)
Decrease in prepaid expenses	84,538
Decrease in miscellaneous receivable	9,019
Decrease in real estate tax receivable	142,706
(Increase) in real estate tax escrow	(136,366)
Increase in accounts payable	92,439
Increase in due to shareholders	32,471
Increase in prepaid maintenance	26,643
(Decrease) in SCRIE payable	<u>(1,103)</u>
Net cash provided by operating activities	<u>203,988</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Expenditures for building improvements and fixed assets	(271,893)
Increase in additional paid in capital transfer fees	59,850
Decrease in capital reserve fund principal	(52,556)
Decrease in deposit for capital improvement	<u>31,650</u>
Net cash (used in) investing activities	<u>(232,949)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments of mortgage principal	(38,173)
Draw downs of line of credit	<u>100,000</u>
Net cash provided by financing activities	<u>61,827</u>
Net increase in cash and cash equivalents	32,866
Cash and cash equivalents, beginning of year	<u>23,954</u>
Cash and cash equivalents, end of year	<u>\$ 56,820</u>

SUPPLEMENTARY CASH FLOW INFORMATION:

Cash Paid During the Year For:	
Mortgage and line of credit interest	\$ <u>176,909</u>
Corporate taxes	\$ <u>3,572</u>

The accompanying notes are an integral part of these financial statements.

WEST GATE HOUSE, INC.
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2012

1. ORGANIZATION:

West Gate House, Inc. (the Corporation) is a Cooperative Housing Corporation incorporated in the State of New York on June 23, 1983, to acquire title of the land and buildings located at 860-870 West 181st Street, New York, New York. West Gate House, Inc. consists of two buildings and has 126 residential units. The primary purpose of the Corporation is to manage the operations and maintain the common elements of the buildings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Common Property:

Common property consists of land, buildings, improvements and equipment and is stated at cost. Depreciation has been computed by means of the straight-line method over the estimated useful lives of the assets. The buildings were fully depreciated at December 31, 2012.

B. Future Needs For Major Repairs and Replacements:

The Corporation has accumulated some funds for major repairs and replacements, and has not conducted studies to determine the remaining useful lives of the components of certain common property and current estimates of costs of major repairs and replacements that may be required in the future. If further funds are needed the Corporation has the right to borrow, increase regular assessments, pass special assessments, or delay replacements until funds are available. The effect on future assessments has not been determined at this time.

C. Cash and Cash Equivalents:

For purposes of the Statement of Cash Flows, the Corporation considers all highly liquid debt instruments purchased with maturities of three months or less (not used for the reserve fund) to be cash equivalents.

D. Use of Estimates:

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based on management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates.

E. Maintenance Assessments:

Tenant-shareholders are subject to monthly assessments to provide funds for Corporation's operating expenses, future capital acquisitions, major repairs, and replacements. Accounts receivable from tenants at the balance sheet date represent maintenance charges due from tenant shareholders and expected to be collectible. Shareholders in considerable arrears are pursued by all legal means to speed collection.

The Board of Directors approved a 5% maintenance increase effective January 1, 2012. An increase of 3.5% has been approved effective January 1, 2013. Both increases were considered necessary to help cover projected operating deficits. Any excess assessments at year end are retained by the Corporation for use in the succeeding year.

WEST GATE HOUSE, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

F. Federal Income Tax:

The Internal Revenue Service had taken the position that real estate cooperatives were subject to Section 277 of the Internal Revenue Code. However, on September 3, 1996, in a landmark ruling, the United States Tax Court found that real estate cooperatives were not subject to Section 277, but were subject to Subchapter T of the Internal Revenue Code. Subchapter T Corporations divide their income and expenses between patronage and non-patronage sources.

Subchapter T organizations must meet three requirements. Those are: subordination of capital, democratic control and operation at cost. Subordination of capital means that the Corporation must operate for the sole benefits of its "patrons" and not "outsiders". By their nature, co-ops must meet that requirement. Democratic control was held to mean that despite shareholders owning unequal amounts of shares, usually based on the relative sizes of their apartments, the co-op was controlled by its shareholders. Operation at cost is met by a co-op because should a co-op have a profit it is not distributed to its shareholders, instead the profit is used to offset future needs. Regarding interest income, if it is generated from reserve funds or excess funds that are invested in short term instruments, it can be included in patronage source income. This would be demonstrated by the fact that a co-op needs to keep a reserve fund for future major repairs and capital improvements. However, income from non-patronage sources such as commercial rental, professional apartment rental, etc. in excess of expenses properly attributable thereto, may be subject to Federal Tax.

For the year ended December 31, 2012, the Corporation had a financial statement net loss of \$(126,033). For tax purposes, this loss was adjusted by amounts discussed in Note 7. In addition, the Corporation had net operating loss carryovers available of \$1,444,512 at December 31, 2012. These NOLs expire between the years 2018 and 2032. The Corporation is also subject to New York State Franchise Tax and New York City Corporation Tax under the capital method at a tax rate of .04%.

A deferred tax asset has not been provided for in the accompanying financial statement due to the uncertainty of the Corporation's ability to generate sufficient taxable income in order to realize the benefit of the net operating loss carryovers prior to the expiration dates.

G. Fuel Inventory:

The Corporation values fuel inventory at cost using the First-in, First-out (FIFO) inventory valuation method.

H. Sublet Fees:

Consent for subletting 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 which is equal to 25% of the annual maintenance charge.

WEST GATE HOUSE, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

3. RESERVE FUNDS:

The Corporation invests its capital reserve funds in highly rated (low risk) financial instruments and are designated for capital improvements. These investments consisted of the following as of December 31, 2012:

NCB	
Money Market Account with an interest rate of 0.10%	\$ 75,315
12 month CD with an interest rate of 0.32%. This CD is a requirement of the NCB mortgage.	27,770
Signature Bank	
Money Market Account with an interest rate of 0.70%	<u>129,156</u>
TOTAL RESERVE FUNDS	\$ <u>232,241</u>

4. COMMON PROPERTY:

Land, building, improvements and equipment at December 31, 2012 are summarized as follows:

Land	\$ 887,733
Building	2,282,742
Improvements and equipment	<u>2,783,486</u>
	5,953,961
Less: Accumulated depreciation	<u>(2,852,637)</u>
	\$ <u>3,101,324</u>

During 2012 the Corporation expended \$271,893 on improvements and equipment, the majority of which was related to an elevator improvement project.

5. MORTGAGE PAYABLE:

In March 2007, the Corporation refinanced its first mortgage and line of credit with a new first mortgage with NCB. The mortgage is in the amount of \$2,500,000 and 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 and then to the payment of principal. The term of the loan is ten 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 penalty based upon a yield maintenance formula. Closing costs associated with the new mortgage totaled \$33,232 and are being amortized over the ten year life of the loan. The mortgage is collateralized by the land and building owned by the Corporation.

Simultaneous with the mortgage refinance, the Corporation acquired a \$1,000,000 line of credit. This line of credit is coterminous with the first mortgage and carries an interest rate equal to the Bank's internal rate plus 100 basis points with repayments in amounts of no less than \$10,000 without penalty on thirty days written notice. Starting in the sixty-first month after the first draw down, 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, \$1,000,000 has been drawn down on this line of credit for capital improvements. Interest expense on this line of credit totaled \$36,914 in year ended December 31, 2012.

WEST GATE HOUSE, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

5. **MORTGAGE PAYABLE (CONT'D)**

In September 2010, the Corporation obtained a third mortgage line of credit in the amount of \$500,000. This line of credit is also coterminous with the first mortgage. It carries an interest rate of 5%. At the balance sheet date, no amounts have been drawn on this line of credit.

The amount of annual principal payments due to NCB in each of the next five years and in the aggregate thereafter, are estimated as follows:

December 31, 2013	\$	39,000
2014		39,500
2015		40,000
2016		40,650
2017		41,250
Thereafter		<u>2,109,558</u>
	\$	<u>2,309,958</u>

6. **COMMITMENTS:**

Management Agreement:

The Corporation entered into an agreement with Siren Management Inc. to manage the day to day operations of the building for a fee of \$40,000 per annum for the year ended December 31, 2012. The agreement provides for the management agent to be in charge of: (a) collecting all rents and other charges, (b) maintaining the building premises adequately, (c) entering into building contracts, (d) purchasing of supplies, (e) keeping all books and records of the Corporation, (f) managing all building personnel, and (g) procuring insurance.

7. **CONTRIBUTIONS TO ADDITIONAL PAID-IN CAPITAL:**

The Corporation treats special assessments for capital improvements and maintenance charges used to pay mortgage amortization as contributions to additional paid-in capital for income tax reporting purposes only.

For the year ended December 31, 2012 these additions to additional paid-in capital for income tax purposes total \$38,173.

8. **FLIP FEES:**

The Amended and Restated Proprietary Lease contains a provision for the payment of transfer fees (flip taxes) equal to 3% of the gross consideration received by a shareholder for the sale or transfer of any interest in the shares and lease held by the shareholder, except for the transfer of shares by the holder of unsold shares (Sponsor) 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 designated to be used for future capital projects. As such, they are not considered income, but are added to the Additional Paid in Capital of the Corporation. In 2012, five apartments were sold, which generated \$59,850 as an increase to Additional Paid in Capital.

WEST GATE HOUSE, INC.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012

9. SPECIAL ASSESSMENT:

The Board of Directors approved a special assessment that approximated the Co-op abatement credits in year ended December 31, 2012. The assessment was charged in the amount of \$6.24 per share that generated a total of \$52,867 and was used to help cover operating expenses. Sponsor held apartments are not charged this assessment.

10. REAL ESTATE TAX REFUND RECEIVABLE AND REFUNDS:

The Corporation challenged its real estate tax assessments for the years 2003/2004 to 2011/2012. There was a successful outcome resulting in a real estate tax refund of \$186,955. Certiorari legal fees associated with this refund totaled \$44,249, thus a net check of \$142,706 was received in April 2012 and deposited into the Corporation's reserve account.

11. RELATED PARTIES:

As of December 31, 2012, the holder of unsold shares, 860-870 Realty, LLC and affiliates, held shares allocated to 22 apartments that total 1,551 shares. These shares represent 16% of the total 9,489 outstanding shares. The total maintenance charges on these apartments is \$173,184 with no arrears due at year ended December 31, 2012.

12. DUE TO SHAREHOLDERS:

As a result of revisions to Section 467(a) of the New York State Real Property Tax Law, certain shareholders of the cooperative units are eligible for partial abatements of their real estate taxes over the tax years 1996/1997 to 2014/2015. In 1998, the New York State School Tax Relief Program (STAR) was authorized by Section 425 of the real Property Tax Law. The STAR Program provides an exemption from school property taxes for owner occupied, primary residences.

During 2012, the Corporation received credits of \$29,281 on its third and fourth quarters 2011/2012 real estate tax bills which represents the Co-op Abatement and STAR Exemptions for the final quarters of 2011/2012. In addition, the Corporation received credits of \$32,368 on its first and second quarters 2012/2013 real estate bills which represents the Co-op Abatement and STAR Exemption for the first quarters of 2012/2013. These amounts are due to individual shareholders who qualify under these programs. As of December 31, 2012, \$43,829 had not yet been applied to the shareholders' accounts. These credits will be applied in 2013.

13. EMPLOYEES' PENSION PLAN:

All of the Corporation's employees are covered by a collective bargaining agreement with Local 32BJ, SEIU which was extended in April 2010 for an additional four year period ending April 1, 2014. In addition, the Corporation's employees are covered by a multi-employer pension plan. The Corporation's contributions to the plan for the years ending December 31, 2012 was approximately \$13,000. Information as to the Corporation's portion of accumulated plan benefits and plan assets is not available. Under the Employee Retirement Income Security Act of 1974, as amended, an employer, upon withdrawal from a multi-employer plan is required to continue to pay its proportionate share of the plan's unfunded vested benefits. The Corporation has no intention of withdrawing from the plan.

WEST GATE HOUSE, INC.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

14. SUBSEQUENT EVENTS:

The Board of Directors and management have evaluated subsequent events that would require adjustments to, or disclosure in the year end financial statements through April 17, 2013, at which time the financial statements became available for issuance.

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors and Shareholders
West Gate House, Inc.
860 West 181st Street
New York, NY 10033

Our report on our audit of the financial statements of West Gate House, Inc. appears on Page 1. The audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule is presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of 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 audit 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


SHAVELSON, NEUMAN & COMPANY, LLP
Certified Public Accountants

April 17, 2013

WEST GATE HOUSE, INC.
SUPPLEMENTARY INFORMATION
DETAIL OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

PAYROLL AND RELATED FEES:

Salaries and bonuses	\$ 144,352
Payroll taxes	11,797
Employee benefits	61,074
Payroll service fees	<u>2,140</u>
	\$ <u>219,363</u>

UTILITIES:

Electricity and gas	\$ 21,511
Fuel oil	<u>191,459</u>
	\$ <u>212,970</u>

REPAIRS AND MAINTENANCE:

Exterminator	\$ 170
Elevator	14,396
Water tank	1,311
Janitorial supplies	10,934
Plumbing, heating and boiler	35,502
Painting and plastering	11,099
Electrical	4,225
Miscellaneous safety and regulation fees	2,024
Window repair	2,084
Consulting	17,074
Floor repairs	30,700
Door and lock repairs	4,797
Apartment repair	9,550
Roof and waterproofing	3,300
Landscaping	8,503
Security monitors and intercom	<u>4,134</u>
	\$ <u>159,803</u>

CORPORATE TAXES AND MISCELLANEOUS:

Corporation taxes	\$ 3,727
Telephone and beeper	4,533
Licenses and fees	6,755
Stationery, printing and miscellaneous administrative expenses	<u>1,326</u>
	\$ <u>16,341</u>

See independent auditor's report
on supplementary information.