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**NAGLE APARTMENTS CORP.**

Financial Statements and  
Supplementary Information for the  
Years Ended December 31, 2001 and 2000

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Prisand ▪ Newman  
Certified Public Accountants

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# NAGLE APARTMENTS CORP.

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## **INDEPENDENT AUDITORS' REPORT**

Board of Directors and Shareholders  
Nagle Apartments Corp.  
31, 37 Nagle Avenue  
14 Bogardus Place  
New York, NY 10040

We have audited the accompanying balance sheet of Nagle Apartments Corp. as of December 31, 2001 and 2000, and the related statements of operations (with supporting schedules), changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nagle Apartments Corp. as of December 31, 2001 and 2000, 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.

Nagle Apartments Corp. has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to above. The budget information included in the comparative data on page 13 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

February 22, 2002

**NAGLE APARTMENTS CORP.**

**BALANCE SHEET**

December 31,	2001	2000
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents:		
Operating account	\$ 35,581	\$ 4,274
Working capital money market account	78,107	77,184
Mortgage escrow	<u>25,770</u>	<u>20,149</u>
	<u>139,458</u>	<u>101,607</u>
Receivables:		
Real estate tax refund	97,466	-
Garage income	63,294	56,972
Maintenance - apartments	34,628	28,782
Due from management	2,500	2,500
Other	-	743
	<u>197,888</u>	<u>88,997</u>
Prepaid expenses:		
Real estate tax	29,306	32,494
Water and sewer	21,902	21,263
Insurance	4,280	2,041
Fuel inventory	3,407	6,253
Corporate taxes	480	789
	<u>59,375</u>	<u>62,840</u>
Line of credit escrow (Note 4)	<u>53,739</u>	<u>52,463</u>
Total Current Assets	<u>450,460</u>	<u>305,907</u>
Property and Improvements: (Note 2)		
Land	316,950	316,950
Building	1,796,050	1,796,050
Building improvements	<u>621,571</u>	<u>621,571</u>
Total	2,734,571	2,734,571
Less: accumulated depreciation	<u>( 1,185,994)</u>	<u>( 1,108,946)</u>
Net Property and Improvements	<u>1,548,577</u>	<u>1,625,625</u>
Other Assets:		
Notes receivable (Note 3)	48,464	52,345
Unamortized mortgage costs	20,678	23,597
Investment in NCB Class B Stock	<u>3,000</u>	<u>3,000</u>
Total Other Assets	<u>72,142</u>	<u>78,942</u>
Total Assets	<u>\$ 2,071,179</u>	<u>\$ 2,010,474</u>

*The accompanying notes are an integral part of this statement.*

**NAGLE APARTMENTS CORP.****BALANCE SHEET****December 31,** **2001** **2000**

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**Liabilities**

## Current Liabilities:

Accounts payable	\$ 34,934	\$ 42,626
Due to shareholders - real estate tax abatements	13,363	12,801
Accrued mortgage interest	11,667	11,667
Accrued line of credit interest	1,328	2,537
Advance maintenance	<u>1,141</u>	<u>3,904</u>
Total Current Liabilities	<u>62,433</u>	<u>73,535</u>

## Long-Term Liabilities:

Mortgage payable (Note 4)	1,750,000	1,750,000
NCB line of credit (Note 4)	300,000	300,000
Security deposits payable	<u>10,737</u>	<u>10,737</u>
Total Long-Term Liabilities	<u>2,060,737</u>	<u>2,060,737</u>
Total Liabilities	<u>2,123,170</u>	<u>2,134,272</u>

**Stockholders' Equity**

Common stock - \$1.00 par value, 15,000 shares authorized, 12,120 shares issued	12,120	12,120
Paid-in capital in excess of par value	175,880	175,880
Paid-in capital from treasury stock (Note 5)	159,408	159,408
Accumulated deficit	( 382,314)	( 454,121)
Less: Treasury stock at cost (540 shares) (Note 5)	<u>( 17,085)</u>	<u>( 17,085)</u>
Total Stockholders' Equity	<u>( 51,991)</u>	<u>( 123,798)</u>
Total Liabilities and Stockholders' Equity	<u>\$ 2,071,179</u>	<u>\$ 2,010,474</u>

*The accompanying notes are an integral part of this statement.*

**NAGLE APARTMENTS CORP.**

**STATEMENT OF OPERATIONS**

Year Ended December 31,	2001	2000
<b>Revenue</b>		
Maintenance	\$ 655,943	\$ 626,180
Garage income	40,000	40,552
Late and other fees	15,611	28,180
Laundry	8,100	8,100
Shareholder interest income	4,047	4,345
Interest and dividend income	<u>3,393</u>	<u>2,316</u>
Total Revenue	<u>727,094</u>	<u>709,673</u>
<b>Cost of Operations</b>		
Administrative expenses	Schedule 1 56,474	56,139
Operating expenses	Schedule 2 266,194	265,459
Repairs and maintenance	Schedule 3 49,447	51,739
Interest expense	161,601	170,102
Real estate tax	115,050	111,900
Corporation taxes	<u>569</u>	<u>696</u>
Total Cost of Operations	<u>649,335</u>	<u>656,035</u>
<b>Income from operations before special items and depreciation and amortization expense</b>	77,759	53,638
Prior years' real estate tax refund (net of \$20,076 certiorari fees)	77,390	-
Unsold unit expenses	Schedule 4 <u>(3,375)</u>	<u>(3,984)</u>
<b>Income Before Depreciation and Amortization Expense</b>	151,774	49,654
Depreciation and amortization expense	<u>(79,967)</u>	<u>(79,754)</u>
Net Income (Loss) For The Year	<u>\$ 71,807</u>	<u>(\$ 30,100)</u>

*The accompanying notes are an integral part of this statement.*

**NAGLE APARTMENTS CORP.**

**SUPPORTING SCHEDULES - STATEMENT OF OPERATIONS**

**Year Ended December 31,** **2001** **2000**

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**Administrative Expenses:**

**Schedule 1**

Management fee	\$ 30,000	\$ 30,000
Professional fees	15,306	15,595
Other administrative	8,615	8,098
Telephone and communications	<u>2,553</u>	<u>2,446</u>
Total Administrative Expenses	<u>\$ 56,474</u>	<u>\$ 56,139</u>

**Operating Expenses:**

**Schedule 2**

<b>Energy</b>		
Water and sewer	\$ 43,358	\$ 42,512
Fuel	39,935	19,837
Gas	37,936	58,258
Electricity	<u>16,800</u>	<u>20,714</u>
	<u>138,029</u>	<u>141,321</u>
<b>Payroll</b>		
Wages	91,982	84,727
Union benefits	10,668	10,958
Payroll taxes	7,373	7,180
Workers' compensation and disability insurance	<u>2,668</u>	<u>1,852</u>
	<u>112,691</u>	<u>104,717</u>
<b>Other</b>		
Insurance	12,618	12,697
Permits and miscellaneous operating	<u>2,856</u>	<u>6,724</u>
	<u>15,474</u>	<u>19,421</u>
Total Operating Expenses	<u>\$ 266,194</u>	<u>\$ 265,459</u>

**Repairs and Maintenance:**

**Schedule 3**

Materials and supplies	\$ 16,555	\$ 14,514
Elevator contract and repair	11,572	10,327
Heating and boiler repairs	6,509	4,104
Painting, plastering and flooring	6,000	3,935
Exterminating	4,174	3,140
Intercom and miscellaneous	3,014	1,379
Equipment repair	950	1,449
Plumbing	457	3,102
Roof and exterior	216	5,640
Doors, locks and windows	<u>-</u>	<u>4,149</u>
Total Repairs and Maintenance	<u>\$ 49,447</u>	<u>\$ 51,739</u>

**NAGLE APARTMENTS CORP.**

*The accompanying notes are an integral part of this statement.*

**SUPPORTING SCHEDULES - STATEMENT OF OPERATIONS**

**Year Ended December 31,** **2001** **2000**

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<b>Unsold Unit Expenses:</b>	<b>Schedule 4</b>	
Rental income	\$ 25,880	\$ 25,328
Maintenance on unsold units	( 29,255)	( 29,312)
Total Unsold Unit Expenses	(\$ 3,375)	(\$ 3,984)

*The accompanying notes are an integral part of this statement.*

**NAGLE APARTMENTS CORP.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

<b>Year Ended December 31,</b>	<b>2001</b>	<b>2000</b>
<b>Common Stock</b>		
Balance - January 1,	\$ 12,120	\$ 12,120
Transactions during the year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 12,120</u>	<u>\$ 12,120</u>
<b>Paid-In Capital in Excess of Par Value</b>		
Balance - January 1,	\$ 175,880	\$ 175,880
Transactions during the year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 175,880</u>	<u>\$ 175,880</u>
<b>Paid-In Capital From Treasury Stock</b>		
Balance - January 1,	\$ 159,408	\$ 133,388
Sale of 110 shares of treasury stock in excess of cost	<u>-</u>	<u>26,020</u>
Balance - December 31,	<u>\$ 159,408</u>	<u>\$ 159,408</u>
<b>Accumulated Deficit</b>		
Balance - January 1,	(\$ 454,121)	(\$ 424,021)
Net income (loss) for the year	<u>71,807</u>	<u>(30,100)</u>
Balance - December 31,	<u>(\$ 382,314)</u>	<u>(\$ 454,121)</u>
<b>Treasury Stock</b>		
Balance - January 1, (540 shares)	(\$ 17,085)	(\$ 17,085)
Acquisition of 110 shares at cost	-	( 18,454)
Sale of 110 shares at cost	<u>-</u>	<u>18,454</u>
Balance - December 31, (540 shares)	<u>(\$ 17,085)</u>	<u>(\$ 17,085)</u>

**NAGLE APARTMENTS CORP.**

*The accompanying notes are an integral part of this statement.*

## STATEMENT OF CASH FLOWS

Year Ended December 31,	2001	2000
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### Cash Flows From Operating Activities

Net income (loss) for the year	\$ 71,807	(\$ 30,100)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	79,967	79,754
Increase in receivables	( 108,891)	( 33,046)
Decrease (increase) in prepaid expenses	3,465	( 4,903)
Increase in escrow account	( 1,276)	( 1,295)
(Decrease) increase in accounts payable	( 7,692)	2,454
(Decrease) increase in other current liabilities	( 3,410)	9,287
Total Adjustments	( 37,837)	52,251
Cash Provided By Operating Activities	33,970	22,151

### Cash Flows From Investing Activities

Proceeds from notes receivable	3,881	3,584
Decrease in building improvements payable	-	( 16,124)
Cash Provided (Used) By Investing Activities	3,881	( 12,540)

### Cash Flows From Financing Activities

Principal payment of mortgage	-	( 25,000)
Proceeds from sale of treasury stock	-	39,474
Cash Provided By Financing Activities	-0-	14,474

Net change in cash and cash equivalents	37,851	24,085
Cash and cash equivalents at beginning of year	101,607	77,522
Cash and cash equivalents at end of year	\$ 139,458	\$ 101,607

### Supplemental Disclosures

Interest paid	\$ 162,809	\$ 170,179
Corporation taxes paid	\$ 260	\$ 525

### Noncash Transactions

At December 31, 2000, the cost of treasury stock includes a credit of outstanding arrears in the amount of \$13,454.

*The accompanying notes are an integral part of this statement.*

## NAGLE APARTMENTS CORP.

### Notes to Financial Statements

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#### Note 1. ORGANIZATION

On May 20, 1980, Nagle Apartments Corp. (the "Corporation") was formed in order to acquire the property at 31, 37 Nagle Avenue, 14 Bogardus Place, New York, New York. The Corporation acquired the land and building on August 3, 1982. It is a qualified Cooperative Housing Corporation under Section 216(b)(1) of the Internal Revenue Code and contains 111 apartments. The primary purpose of the Corporation is to manage the operations of the property and maintain the common elements.

At December 31, 2001 and 2000, Ellwood Gardens Company (the "Sponsor") owned 1,655 shares which represent 13.7% of the total shares issued.

#### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### **Basis of Presentation and Use of Estimates**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

##### **Property and Improvements**

Property and improvements are stated at cost. The building is depreciated on the straight-line method over an estimated life of thirty-five years. Building improvements are depreciated on the straight-line method over estimated lives of twenty-seven and one-half years. Maintenance and repairs that do not increase the useful life of an asset are expensed as incurred.

##### **Revenue Recognition**

Shareholder maintenance is based on an annual budget determined by the Board of Directors. Shareholders are billed monthly based on their respective share ownership. This income is recognized when due and payable. The Corporation retains excess operating funds at the end of the operating year, if any, for use in future periods.

##### **Deferred Finance Costs**

Amortization of deferred financing costs is being charged to operations on the straight-line method over the remaining life of the related mortgage.

##### **Statement of Cash Flows**

Cash and cash equivalents are stated at cost which approximates market. The Corporation considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

##### **Future Major Repairs and Replacements**

The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Corporation has not promulgated a study to determine the remaining useful lives of the components of the building and estimates of the costs of major repairs and replacements that may be required. When funds are required for major repairs and replacements, the Corporation has the right to utilize available cash reserves and/or borrow, increase maintenance and/or impose assessments, or delay repairs and replacements until funds are available.

**NAGLE APARTMENTS CORP.**

**Notes to Financial Statements**

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**Note 3. NOTES RECEIVABLE**

On sales of treasury stock shares appurtenant to three units, the Corporation financed notes receivable in the amount of \$62,806. During 2001 and 2000, principal payments of \$3,881 and \$3,584 respectively, were received reducing the outstanding notes receivable to \$48,464 and \$52,345, respectively, at the balance sheet date.

Terms of the notes financed by the Corporation require equal monthly installments applied to interest at the rate of 8% per annum and the balance as a reduction of principal pursuant to seven, fifteen and twenty year amortization schedules.

**Note 4. MORTGAGE PAYABLE**

The wrap-around mortgage payable to Ellwood Gardens Company and 20-20 Realty Corp. in the original principal balance of \$1,850,000 bears interest at the rate of 8% per annum. At December 31, 2001 and 2000, the mortgage payable balance was \$1,750,000. The Corporation has the right to prepay a maximum of \$25,000 in each year of the mortgage. Prepayments may be cumulative so that if such right is not exercised in any one or more loan years, the amount may be carried forward and added to the amount that may be prepaid in a future loan year. Subsequent to the balance sheet date, the Corporation made a \$25,000 principal payment reducing the mortgage balance to \$1,725,000. The mortgage may be fully prepaid at any time after September 1, 2003. Terms of the loan require interest only payments on the outstanding principal balance. The loan matures August 31, 2006.

**Line of Credit**

On January 29, 1999, the Corporation established a secured line of credit with National Cooperative Bank ("NCB") with a maximum draw of \$300,000. Terms of the loan require payments of interest only (on funds drawn from the credit line) for the first year at the interest rate of 3% over the Libor rate adjusted monthly. During the second year, monthly payments were to include both interest and principal pursuant to a ten year amortization schedule. Pursuant to the original terms, the loan matures on the earlier of any prepayment or refinancing of the first mortgage or August 31, 2006.

As of December 31, 2001, NCB did not request, and the Corporation did not make, any principal payments as per the terms of the loan. The average interest rate for 2001 was 7.2%. NCB placed \$50,000 of the \$300,000 credit line proceeds into an escrow account to be released upon the sale of no less than six of nine apartments owned by an investor.

Subsequent to the balance sheet date, a sufficient number of the investor units had been sold and the escrow will be applied to the past due principal payments on the line of credit.

**Note 5. ACQUISITION AND SALE OF TREASURY STOCK**

The following schedule summarizes the acquisition and sales of treasury stock shares:

Acquisition:

<u>Shares</u>	<u>Cost</u>
<u>1,780</u>	<u>\$ 113,254</u>

## NAGLE APARTMENTS CORP.

### Notes to Financial Statements

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#### Note 5. ACQUISITION AND SALE OF TREASURY STOCK (continued)

Sales:

	<u>Shares</u>	<u>Gross Sales Price</u>	<u>Selling/Closing Costs</u>	<u>Acquisition Costs</u>	<u>Gain on Sales</u>
1997	685	\$ 120,500	\$ 26,824	\$ 47,424	\$ 46,252
1998	130	30,000	724	1,905	27,371
1999	315	103,500	15,349	28,386	59,765
2000	<u>110</u>	<u>46,000</u>	<u>1,526</u>	<u>18,454</u>	<u>26,020</u>
	<u>1,240</u>	<u>\$ 300,000</u>	<u>\$ 44,423</u>	<u>\$ 96,169</u>	<u>\$ 159,408</u>

The gain on sales is recorded as paid-in capital from treasury stock. At December 31, 2001 and 2000, the Corporation held 540 shares of treasury stock appurtenant to 5 occupied apartments. The monthly shortfall on the five apartments is approximately \$291.

#### Note 6. CORPORATION TAXES

The financial statements do not contain a provision for Federal income tax due to net operating losses for tax purposes. Federal income tax is computed pursuant to Subchapter T of the Internal Revenue Code. New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations based on the Corporation's capital base.

#### Note 7. CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts.

#### Note 8. LEGAL MATTERS

The Corporation is involved in legal proceedings arising in the ordinary course of business. Management believes that the final outcome of these proceedings will not result in any significant liability.

**SUPPLEMENTARY INFORMATION**

**NAGLE APARTMENTS CORP.**

**Comparative Data: Actual vs. Budget**

	<u>For The Year</u>		<u>Prior Year</u>	<u>Next Year</u>
	<u>January 1, 2001 - December 31, 2001</u>		<u>January 1, 2000 -</u>	<u>January 1, 2002 -</u>
	<u>Budget</u>	<u>Actual</u>	<u>December 31, 2000</u>	<u>December 31, 2002</u>
	(Unaudited)		Actual	Budget
				(Unaudited)
<b>REVENUE</b>				
Maintenance	\$ 654,000	\$ 655,943	\$ 626,180	\$ 656,000
Garage income	40,000	40,000	40,552	130,000
Late and other fees	10,600	15,611	28,180	11,300
Laundry	8,000	8,100	8,100	8,100
Shareholder interest income	-	4,047	4,345	-
Interest and dividend income	-	3,393	2,316	-
<b>TOTAL REVENUE</b>	<u>712,600</u>	<u>727,094</u>	<u>709,673</u>	<u>805,400</u>
<b>EXPENDITURES</b>				
Management fee	30,000	30,000	30,000	33,000
Professional fees	30,300	15,306	15,595	30,800
Other administrative	6,600	8,615	8,098	8,000
Telephone and communications	2,700	2,553	2,446	2,700
Gas and electricity	76,000	54,736	78,972	85,000
Water and sewer	40,000	43,358	42,512	24,000
Fuel	33,600	39,935	19,837	32,000
Wages	80,650	91,982	84,727	82,000
Union benefits	11,700	10,668	10,958	13,400
Payroll taxes	8,800	7,373	7,180	9,800
Workers' comp. & disability insurance	5,100	2,668	1,852	5,200
Insurance	14,200	12,618	12,697	15,600
Permits and miscellaneous operating	6,400	2,856	6,724	3,000
Repairs and maintenance	47,000	49,447	51,739	48,300
Mortgage interest and amortization	167,000	140,000	166,500	165,000
Line of credit interest and amortization	30,000	21,601	28,602	24,000
Real estate tax	120,750	115,050	111,900	119,200
Corporation taxes	1,800	569	696	1,900
Contingency/reserve funding	-	-	-	102,500
<b>TOTAL EXPENDITURES</b>	<u>712,600</u>	<u>649,335</u>	<u>681,035</u>	<u>805,400</u>
Budgeted Surplus	-0-			-0-
<b>ACTUAL OPERATING INCOME</b>		77,759	28,638	
Add: Prior year real estate tax refund	-	77,390	-	-
Mortgage pay-down	25,000	-	25,000	25,000
Garage settlement income	-	-	-	-
Less: Unsold unit expenses	-	( 3,375)	( 3,984)	-
<b>INCOME BEFORE DEPRECIATION</b>	<u>\$ 25,000</u>	<u>\$ 151,774</u>	<u>\$ 49,654</u>	<u>\$ 25,000</u>