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DAYTON TOWERS CORPORATION

Financial Statements and
Supplementary Information for the
Years Ended September 30, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
DAYTON TOWERS CORPORATION
8000 Shore Front Parkway
Rockaway Beach, NY 11693

Opinion

We have audited the accompanying financial statements of DAYTON TOWERS CORPORATION, which comprise the balance sheets (with supporting schedules) as of September 30, 2023 and 2022, and the related statements of revenues and expenses (with supporting schedules), changes in stockholders' deficiency, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DAYTON TOWERS CORPORATION as of September 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DAYTON TOWERS CORPORATION and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about DAYTON TOWERS CORPORATION's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

DAYTON TOWERS CORPORATION
BALANCE SHEETS
AS OF SEPTEMBER 30,

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,299,774	\$ 1,754,705
Short-term investments (Note 2)	325,000	-
Accounts receivable	1,887,436	1,654,672
Prepaid expenses	1,569,094	1,345,013
Mortgage escrows (Note 3)	1,637,913	1,242,975
Total Current Assets	<u>6,719,217</u>	<u>5,997,365</u>
Funds: (Notes 2 and 4)		
Operating reserve fund	2,016,300	1,963,112
Capital reserve fund	1,697,315	1,487,663
Double equity reserve fund	387,202	1,139,378
Total Funds	<u>4,100,817</u>	<u>4,590,153</u>
Property and Improvements: (Notes 2 and 5)		
Land	4,942,061	4,942,061
Buildings	29,274,548	29,274,548
Building improvements and equipment	83,403,126	83,048,090
Total	117,619,735	117,264,699
Accumulated depreciation	<u>(75,479,121)</u>	<u>(72,300,453)</u>
Net Property and Improvements	<u>42,140,614</u>	<u>44,964,246</u>
Total Assets	<u><u>\$ 52,960,648</u></u>	<u><u>\$ 55,551,764</u></u>

The accompanying notes are an integral part of this statement.

DAYTON TOWERS CORPORATION
SUPPORTING SCHEDULES - BALANCE SHEETS
AS OF SEPTEMBER 30,

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	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents:		
Checking Accounts:		
Operating accounts - JPMorgan Chase Bank/Signature Bank	\$ 477,544	\$ 331,593
Equity account - JPMorgan Chase Bank	754,868	917,579
Community accounts - JPMorgan Chase Bank	13,014	14,414
	<u>1,245,426</u>	<u>1,263,586</u>
Money Market and Passbook Savings Accounts:		
Community accounts - JPMorgan Chase Bank	54,348	286,740
Community account - BCB Community Bank	-	204,379
	<u>54,348</u>	<u>491,119</u>
Total Cash and Cash Equivalents	<u>\$ 1,299,774</u>	<u>\$ 1,754,705</u>
Accounts Receivable:		
Maintenance - Apartments (net of allowance for doubtful accounts of \$666,026 in 2023 and \$283,393 in 2022) (Note 2)	\$ 1,860,144	\$ 1,627,974
Laundry income	27,292	-
Commercial rent (Notes 2 and 8)	-	26,698
Total Accounts Receivable	<u>\$ 1,887,436</u>	<u>\$ 1,654,672</u>
Prepaid Expenses:		
Insurance	\$ 1,121,630	\$ 892,903
Real estate tax	278,292	279,349
Supplies inventory	107,500	112,000
Fuel	61,672	60,761
Total Prepaid Expenses	<u>\$ 1,569,094</u>	<u>\$ 1,345,013</u>

The accompanying notes are an integral part of this statement.

DAYTON TOWERS CORPORATION
SUPPORTING SCHEDULES - STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED SEPTEMBER 30,

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	<u>2023</u>	<u>2022</u>
Administrative Expenses:		
Management fee (Note 15)	\$ 797,454	\$ 762,900
Professional fees	124,051	173,542
Office and administrative expenses	95,519	103,602
Telephone and communications	44,466	43,632
	<u> </u>	<u> </u>
Total Administrative Expenses	<u>\$ 1,061,490</u>	<u>\$ 1,083,676</u>
 Operating Expenses:		
Utilities		
Electricity and gas	\$ 1,785,171	\$ 2,065,995
Water and sewer	1,756,581	1,587,957
Gas - heat and fuel	1,290,068	1,977,330
	<u> </u>	<u> </u>
	4,831,820	5,631,282
 Payroll		
Wages	2,687,017	3,079,316
Union benefits (Note 10)	1,263,693	1,186,959
Workers' compensation and disability	325,446	267,076
Payroll taxes	242,723	260,996
	<u> </u>	<u> </u>
	4,518,879	4,794,347
 Other		
Insurance	2,513,245	1,796,339
Security	1,220,468	1,180,809
Permits and miscellaneous operating	17,080	8,201
	<u> </u>	<u> </u>
	3,750,793	2,985,349
	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$ 13,101,492</u>	<u>\$ 13,410,978</u>

The accompanying notes are an integral part of this statement.

DAYTON TOWERS CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
FOR THE YEARS ENDED SEPTEMBER 30,

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	<u>2023</u>	
COMMON STOCK		
Balance - Beginning of Year	\$ 6,233,760	\$ 6,233,760
Transactions during the year	<u>-</u>	<u>-</u>
Balance - September 30,	<u><u>\$ 6,233,760</u></u>	<u><u>\$ 6,233,760</u></u>
CONTRIBUTED CAPITAL		
Balance - Beginning of Year	\$ 12,664,271	\$ 12,406,337
Contributed capital - double equity (Note 4)	<u>144,734</u>	<u>257,934</u>
Balance - September 30,	<u><u>\$ 12,809,005</u></u>	<u><u>\$ 12,664,271</u></u>
ACCUMULATED DEFICIT		
Balance - Beginning of Year	\$ (33,034,088)	\$ (32,670,002)
Net income (loss) for the year	<u>237,185</u>	<u>(364,086)</u>
Balance - September 30,	<u><u>\$ (32,796,903)</u></u>	<u><u>\$ (33,034,088)</u></u>
TREASURY STOCK (NOTE 7)		
Balance - Beginning of Year	\$ (52,783)	\$ (52,783)
Transactions during the year	<u>-</u>	<u>-</u>
Balance - September 30, (1,676 shares)	<u><u>\$ (52,783)</u></u>	<u><u>\$ (52,783)</u></u>

The accompanying notes are an integral part of this statement.

DAYTON TOWERS CORPORATION

Notes to Financial Statements

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Note 1 - ORGANIZATION

Dayton Towers Corporation (the "Corporation") began operations in March 1966 pursuant to the New York State Private Housing Finance Law, Article 2 (the "Mitchell-Lama Program"). The Corporation is a residential Cooperative Housing Corporation located in Rockaway Beach, New York. The Property is comprised of seven high-rise buildings containing 1,752 residential apartments, 1,167 parking spaces, one professional office unit and a shopping center. The primary purpose of the Corporation is to maintain and operate the common elements of the Property.

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 accordance 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Short-Term Investments

The Corporation's short-term investments consist of a six-month certificate of deposit, which matures on March 3, 2024.

Fair Value Measurements

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets or liabilities (Level 1) and the lowest priority to significant unobservable inputs when market prices are not readily available or are unreliable (Level 3). Generally accepted accounting principles define fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 inputs to the valuation methodology include quoted prices in active markets for similar assets or liabilities, quoted prices in inactive markets for identical assets or liabilities, or other significant observable inputs.

Level 3 inputs to the valuation methodology are unobservable inputs for the asset or liability which reflect management's assumptions about the factors market participants would use in determining fair value and are based on the best information available.

As of September 30, 2023, \$325,000 of the Corporation's investment in a certificate of deposit was valued using Level 2 inputs.

DAYTON TOWERS CORPORATION

Notes to Financial Statements

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Commercial Accounts Receivable

Accounts receivable at the balance sheet date represent past due amounts from commercial tenants. As of September 30, 2023, the Corporation did not have any outstanding arrears from commercial tenants.

Income Taxes

The Corporation accounts for certain income items differently for financial reporting and income tax purposes. The principal differences are permanent in nature and relate to any portion of maintenance charges used for mortgage amortization, which are accounted for as revenue for financial reporting purposes and as contributions to additional paid-in capital for income tax purposes. The forgiveness of the Paycheck Protection Program loan during the year ended September 30, 2022 was not subject to income tax.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Corporation considers all highly liquid investments (not allocated to the short-term investments, funds or the mortgage escrow accounts) with a maturity of three months or less at the date of purchase to be cash equivalents.

Note 3 - MORTGAGE ESCROWS

The Corporation deposits prorated monthly sums into escrow accounts maintained by the New York City Housing Development Corporation ("HDC") for the payment of real estate taxes, water and sewer expense and insurance. As of September 30, 2023, the escrow accounts had a balance of \$1,637,913.

Note 4 - FUNDS

Operating Reserve Fund

During the years ended September 30, 2023 and 2022, the following transactions have taken place in the Corporation's operating reserve fund.

	<u>2023</u>	<u>2022</u>
Balance - Beginning of Year	\$ 1,963,112	\$ 1,957,600
Interest and dividends - net of bank charges	<u>53,188</u>	<u>5,512</u>
Balance - September 30,	<u>\$ 2,016,300</u>	<u>\$ 1,963,112</u>

The operating reserve fund is held by HDC and invested in U.S. Treasury Bills.

Pursuant to the terms of the first mortgage payable (Note 6), the Corporation is required to maintain a minimum operating reserve fund balance of \$1,752,000, which is equal to \$1,000 per apartment unit.

DAYTON TOWERS CORPORATION

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Notes to Financial Statements

Note 5 - PROPERTY AND IMPROVEMENTS

During the years ended September 30, 2023 and 2022, the Corporation capitalized the following building improvements and equipment.

	<u>2023</u>	<u>2022</u>
Flood prevention and resiliency work	\$ 188,337	\$ -
Facade restoration (FISP)	166,699	1,600,909
Pool upgrades	-	46,863
Sidewalk replacement	-	37,500
Equipment and general improvements	-	17,018
Total	<u>\$ 355,036</u>	<u>\$ 1,702,290</u>

During the years ending September 30, 2024 and 2025, the Corporation anticipates spending approximately \$15,000,000 on the facade restoration project required under New York City's Façade Inspection and Safety Program ("FISP") (formerly Local Law 11). This project is subject to change orders and professional fees as work progresses and will be paid for with proceeds from an additional loan from HDC.

Note 6 - LONG-TERM DEBT

First Mortgage Payable

The first mortgage payable, in the original principal amount of \$36,865,000, is held by HDC. It requires equal monthly payments of \$228,139, applied first to interest at a rate of 6.298% per annum with the balance as a reduction of principal based on a thirty-year amortization schedule. The loan is secured by the land and buildings owned by the Corporation. It is scheduled to mature on December 31, 2043, at which time the outstanding principal balance of approximately \$2,647,000 will be refinanced or extended.

During the next five years ending September 30, the principal payments required under the first mortgage payable are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Amount</u>
2024	\$ 741,715
2025	789,801
2026	841,005
2027	895,529
2028	953,587

Second Mortgage Payable

The second mortgage payable, in the original principal amount of \$24,196,596, is held by HDC. The current interest rate is set at 0% per annum. Monthly payments are not required until December 31, 2043 at which time the entire outstanding loan balance will be due.

DAYTON TOWERS CORPORATION

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Notes to Financial Statements

Note 8 - **COMMERCIAL AND ANTENNA INCOME** (continued)

Antenna Income

The Corporation currently leases a portion of its roof space to Verizon Wireless (the "Lessee") for telecommunications equipment. The initial lease term was for a five-year period which ended in December 2021. During December 2021, the Lessee exercised the first five-year renewal option, which extended the lease until December 2026. The Lessee has the option to renew the lease for two additional five-year terms. The current base rent is \$29,120 per annum.

Note 9 - **NEW YORK CITY SHELTER RENT REAL ESTATE TAX**

The Board of Estimate of the City of New York has granted the Corporation a partial abatement of real estate tax. The Corporation is required to pay real estate tax based on the "shelter rent formula" as defined.

The Corporation is also the recipient of three real estate tax abatements under the New York City Tax Incentive and Abatement Program (referred to as the J-51 program). Current benefits are \$354,866 per annum. J-51 benefits are expected to be realized through the year ending September 30, 2027.

Note 10 - **UNION BENEFITS**

Substantially all of the Corporation's employees are members of the Service Employees International Union ("SEIU") Local 32BJ or the International Union of Operating Engineers ("IUOE") Local 30, which are covered by union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plans (the "Plans"). The Corporation makes contributions to the Plans based on the number of weeks worked by each employee covered under the union contracts.

Contributions to the pension plans are not segregated or otherwise restricted to provide benefits only to the Corporation's employees. The risks of participating in a multiemployer pension plan are different from a single-employer pension plan in the following aspects: 1) assets contributed to a multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers, 2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and 3) if the Corporation chooses to stop participating in its multiemployer pension plan, the Corporation may be required to pay the plan an amount based on the underfunded status of the plan, which is referred to as a withdrawal liability.

In accordance with the Pension Protection Act of 2006, each pension plan receives an annual certified zone status from its actuary, which summarizes its funding status. Plans in the "red zone" are generally less than 65% funded, plans in the "yellow zone" are 65% to 80% funded, and plans in the "green zone" are at least 80% funded. As of July 1, 2022, the Building Service 32BJ Pension Fund's (the "32BJ Fund") most recently available certified zone status was "yellow". However, the 32BJ Fund is considered to be in "critical status" for the plan year beginning July 1, 2022 since its actuary has determined that the 32BJ Fund will have a funding deficiency in its current plan year.

DAYTON TOWERS CORPORATION

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Note 11 - CORPORATION INCOME TAXES (continued)

The Corporation is a limited profit housing company and is exempt from New York State Franchise tax and New York City Corporation tax.

The Corporation's tax returns for all years since the year ended September 30, 2020 remain open to examination by the respective taxing authorities. There are currently no tax examinations in progress.

Note 12 - CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash in bank deposit accounts and money market accounts which, at times, may exceed federally insured limits. As of September 30, 2023, the Corporation held approximately \$2,157,400 of cash in excess of federally insured limits. The Corporation has not experienced any losses due to concentration of credit risk in such accounts.

Note 13 - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Corporation's primary asset is a 1,752 unit apartment development. The Corporation's operations are concentrated in the multifamily real estate market, which is a heavily regulated environment. The operations of the Corporation are subject to the administrative directives, rules and regulations of HPD. Such administrative directives, rules and regulations are subject to change by HPD. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Note 14 - OTHER MATTERS

Maintenance Increases

The Board of Directors and HPD previously approved maintenance increases of 2% effective December 1, 2019, 2% effective December 1, 2020 and 2% effective December 1, 2021. As of the date of issuance of the accompanying financial statements, the Board of Directors was in the process of applying for a maintenance increase with HPD.

Energy Assessment

The Board of Directors and HPD previously approved an energy assessment of \$591,657, which was billed to the stockholders over eight months from September 1, 2022 to April 30, 2023. During the years ended September 30, 2023 and 2022, the Corporation billed \$517,203 and \$74,454, respectively, of the assessment.

Stockholder Charges

On January 22, 2023, HPD approved an increase in air conditioner fees from \$20 to \$30 per month, per unit effective March 1, 2023 and a parking fee increase from \$30 to \$50 per rear spot, per month and a parking fee increase from \$35 to \$60 per front spot, per month effective March 1, 2023. In addition, dishwasher, freezer and bike room charges were increased effective March 1, 2023.

**SUPPLEMENTARY AND PROSPECT
INFORMATION**

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DAYTON TOWERS CORPORATION

Comparative Schedule of Revenues and Expenditures - Budget, Historical and Forecast

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	For The Year		Prior Year	Next Year
	October 1, 2022 - September 30, 2023		October 1, 2021 -	October 1, 2023 -
	Amended		September 30, 2022	September 30, 2024
	Budget	Actual	Actual	Forecast
	(Unaudited)			(Unaudited)
REVENUES				
Maintenance - Apartments (1)	\$ 17,547,800	\$ 17,547,507	\$ 17,490,453	\$ 17,547,800
Surcharges	880,000	1,002,200	876,763	1,000,000
Parking income	605,000	604,975	451,381	761,200
Air conditioners	560,000	559,832	359,930	600,000
Energy assessment	525,000	517,203	74,454	-
Laundry income	327,500	327,504	327,504	327,500
Pool fees	148,000	141,152	148,288	148,000
Interest and dividends	30,000	131,948	17,945	140,000
Administrative, late and other stockholder fees	190,000	124,184	153,624	175,000
Commercial income	116,900	116,923	113,535	116,900
Antenna income	29,100	29,120	29,120	29,100
TOTAL REVENUES	20,959,300	21,102,548	20,042,997	20,845,500
EXPENDITURES				
Management fee	797,500	797,454	762,900	813,400
Professional fees	175,000	124,051	173,542	150,000
Office, administrative and telephone	160,500	139,985	147,234	150,000
Electricity and gas	2,100,000	1,785,171	2,065,995	2,100,000
Water and sewer	1,600,000	1,756,581	1,587,957	1,990,000
Gas - heat and fuel	1,400,000	1,290,068	1,977,330	1,400,000
Wages and related costs	5,012,000	4,518,879	4,794,347	5,000,000
Insurance	1,900,000	2,513,245	1,796,339	2,700,000
Security	1,200,000	1,220,468	1,180,809	1,300,000
Permits and miscellaneous operating	31,000	17,080	8,201	25,000
Repairs and maintenance	2,500,000	2,321,792	2,635,340	2,500,000
First mortgage interest and amortization	2,734,500	2,734,007	2,734,229	2,734,500
New York City shelter rent real estate tax	1,200,000	1,071,567	1,093,930	1,200,000
Capital reserve funding	148,800	148,844	446,532	-
TOTAL EXPENDITURES	20,959,300	20,439,192	21,404,685	22,062,900
Budgeted Surplus (Deficit)	\$ -			\$ (1,217,400)
INCOME (LOSS) FROM OPERATIONS		663,356	(1,361,688)	
Amortization of disaster recovery loans		2,225,325	2,198,420	
First mortgage amortization		696,557	654,147	
Settlement of prior years' expenses		203,922	-	
Capital reserve funding		148,844	446,532	
Forgiveness of Paycheck Protection Program loan		-	822,992	
Water and sewer credits		-	438,000	
Amortization of debt issuance costs		(141,190)	(141,190)	
Bad debt expense		(380,962)	(116,365)	
INCOME BEFORE DEPRECIATION EXPENSE		\$ 3,415,852	\$ 2,940,848	

(1) Maintenance has been increased by 2% effective December 1, 2021.

See Independent Accountant's Compilation Report and Summary of Significant Accounting Policies and Forecast Assumptions.