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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
University Towers Owners' Corporation

We have audited the accompanying financial statements of University Towers Owners' Corporation, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations and accumulated deficit and cash flows for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 University Towers Owners' Corporation as of December 31, 2020 and 2019, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information about future repairs and replacements on Page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bailey Scarano, LLC

Branford, Connecticut
May 13, 2021

UNIVERSITY TOWERS OWNERS' CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2020 and 2019

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UNIVERSITY TOWERS OWNERS' CORPORATION
BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
<u>ASSETS</u>		
Cash	\$ 1,150,966	\$ 1,409,214
Real estate tax escrow	514,281	395,791
Insurance escrow	60,668	47,819
Tenant-stockholder receivables, net of allowance for doubtful accounts of \$50,000 in 2020 and \$30,000 2019	155,842	185,623
Rent receivable	37,126	25,976
Other receivables	4,065	4,217
Deposits	1,870	1,870
Prepaid expenses	76,275	69,984
Property and equipment, net of accumulated depreciation	16,101,539	16,969,654
Total	\$ 18,102,632	\$ 19,110,148
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Mortgage payable	\$ 24,172,834	\$ 24,612,478
Less: unamortized debt issuance costs	60,427	71,414
Mortgage payable, less unamortized debt issuance costs	24,112,407	24,541,064
Accounts payable	75,672	97,251
Accrued expenses	112,587	114,795
Accrued property taxes	551,015	539,714
Tenant-stockholder receivables received in advance	126,202	188,111
Rent received in advance	17,371	22,946
Security deposits	2,586	4,186
Total	24,997,840	25,508,067
 <u>STOCKHOLDERS' DEFICIT</u>		
Common stock, par value \$.50, authorized 100,000 shares; issued 89,736 shares; outstanding 88,740 shares	44,868	44,868
Additional paid-in capital	5,192,810	5,192,810
Accumulated deficit	(12,031,380)	(11,592,618)
Total	(6,793,702)	(6,354,940)
Less, treasury stock at cost, 652 shares	101,506	42,979
Total	(6,895,208)	(6,397,919)
Total	\$ 18,102,632	\$ 19,110,148

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT
Years ended December 31, 2020 and 2019

	2020	2019
REVENUES		
Maintenance charges	\$ 3,527,260	\$ 3,512,669
Rental	540,828	570,361
Parking	194,920	184,355
Maintenance income	40,182	59,253
Laundry commission	12,772	13,443
Miscellaneous	11,549	20,700
Rental commission	2,898	4,658
Interest	2,038	10,008
	4,332,447	4,375,447
EXPENSES		
Interest	1,126,176	1,142,779
Personnel costs	771,955	680,247
Property taxes	738,454	719,618
Building maintenance	346,935	313,264
Management fee	149,666	146,731
Professional fees	133,692	36,038
Insurance	99,957	97,357
Electric	96,083	128,505
Water and sewer	82,184	80,668
Gas and fuel oil	63,633	94,340
Administrative	30,810	34,505
Bad debts	20,000	4,552
Telephone	11,644	7,524
	3,671,189	3,486,128
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS BEFORE DEPRECIATION	661,258	889,319
DEPRECIATION	1,100,020	1,096,015
EXCESS OF EXPENSES OVER REVENUES	(438,762)	(206,696)
BEGINNING ACCUMULATED DEFICIT	(11,592,618)	(11,385,922)
ENDING ACCUMULATED DEFICIT	\$ (12,031,380)	\$ (11,592,618)

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenues	\$ (438,762)	\$ (206,696)
Adjustments to reconcile excess of expenses over revenues to net cash provided by operating activities:		
Depreciation	1,100,020	1,096,015
Amortization of debt issuance costs	10,987	10,987
Bad debts	20,000	4,552
(Increase) decrease in:		
Real estate tax escrow	(118,490)	(17,991)
Insurance escrow	(12,849)	603
Tenant-stockholder receivables	9,781	(41,918)
Rent receivable	(11,150)	(3,597)
Other receivables	152	813
Prepaid expenses	(6,291)	(1,088)
(Decrease) increase in:		
Accounts payable	(21,579)	33,437
Accrued expenses	(2,208)	5,203
Accrued property taxes	11,301	-
Tenant-stockholder receivables received in advance	(61,909)	23,768
Rent received in advance	(5,575)	(10,232)
Security deposits	(1,600)	-
Total adjustments	910,590	1,100,552
NET CASH PROVIDED BY OPERATING ACTIVITIES	471,828	893,856
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital improvements	(231,905)	(147,339)
NET CASH USED IN INVESTING ACTIVITIES	(231,905)	(147,339)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage payable	(439,644)	(423,106)
Purchase of treasury stock	(58,527)	(42,979)
NET CASH USED IN FINANCING ACTIVITIES	(498,171)	(466,085)
NET (DECREASE) INCREASE IN CASH	(258,248)	280,432
CASH AT BEGINNING OF YEAR	1,409,214	1,128,782
CASH AT END OF YEAR	\$ 1,150,966	\$ 1,409,214

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 1,133,432</u>	<u>\$ 1,133,432</u>

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2020 and 2019

NOTE #1 - NATURE OF ORGANIZATION

University Towers Owners' Corporation ("Corporation") is a cooperative housing corporation incorporated in the State of Connecticut in April 1981. The Corporation owns the multi-story building known as University Towers located in New Haven, Connecticut. The apartment building primarily consists of 238 residential units. In addition, the building has professional suites, offices, parking spaces and a swimming pool. The primary purpose of the Corporation is to manage the operations of University Towers and maintain the common elements.

NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tenant-Stockholder Receivables

Tenant-stockholder receivables are carried at cost. Credit is generally extended on a short-term basis; thus, receivables do not bear interest.

The Corporation uses the allowance method to account for uncollectible receivables, which is based on management's estimate and historical performance. Write-offs of tenant-stockholder receivables are done after management has exhausted all other methods of collections.

Property and Equipment

Property and equipment are recorded at cost and consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 445,576	\$ 445,576
Building	8,060,615	8,060,615
Improvements	21,194,886	20,978,558
Equipment	<u>140,907</u>	<u>125,330</u>
	29,841,984	29,610,079
Less accumulated depreciation	<u>13,740,445</u>	<u>12,640,425</u>
Total	<u>\$16,101,539</u>	<u>\$16,969,654</u>

Expenditures for maintenance and repairs are charged to operations as incurred. Expenditures for betterments and major repairs are capitalized. Depreciation is computed using accelerated and straight-line methods to absorb the cost of the assets over their estimated useful lives as follows:

Building	10-40 Years
Improvements	5-39 Years
Equipment	5-10 Years

Depreciation expense for the years ended December 31, 2020 and 2019 is \$1,100,020 and \$1,096,015, respectively.

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE #2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Maintenance Assessments

Tenant-stockholders are subject to monthly assessments to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Tenant-stockholder receivables at the balance sheet date represent maintenance fees due from tenant-stockholders. Any excess assessments at year end are retained by the Corporation for use in the succeeding year.

Statements of Cash Flows

For purposes of reporting the statements of cash flows, the Corporation includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with maturity of three months or less as cash on the accompanying balance sheet.

Estimates

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

Date of Management Evaluation

Management has evaluated subsequent events through May 11, 2021, the date on which the financial statements were available to be issued.

NOTE #3 - MORTGAGE PAYABLE

Mortgage payable consists of:

	<u>2020</u>	<u>2019</u>
Mortgage payable, ten year loan dated June 27, 2016, original funding available of \$25,600,000. Interest rate at 4.5%, interest only payments through July 1, 2017. Payments of interest and principal based on the number of days in the billing cycle began August 2017. The loan is secured by all buildings, equipment and all leases and sub-leases covering the Corporation.	\$24,172,834	\$24,612,478
Less: Unamortized debt issuance costs	<u>60,427</u>	<u>71,414</u>
Total mortgage payable, less unamortized debt issuance costs	<u>\$24,112,407</u>	<u>\$24,541,064</u>

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE #3 - MORTGAGE PAYABLE (Continued)

The debt issuance costs of the current mortgage are \$109,868 and are being amortized over the ten-year term of the mortgage beginning June 27, 2016. Amortization of the debt issuance costs is reported as interest expense in the income statement.

NOTE #4 - LEASES

Commercial Leases

Commercial space on the property is being rented to various tenants with lease expirations ranging from one to ten years. Monthly rentals for these leases approximate \$49,400. Rentals over the remainder of the lease terms aggregate approximately \$1,466,000.

Proprietary Lease

Each owner is required to enter into a proprietary lease whereupon the amount of capital shares as well as the terms and conditions of the maintenance arrangement are described.

NOTE #5 - INCOME TAXES

The Corporation is annually required to file an 1120-C Corporate Tax Return. The IRS holds the position that qualifying housing organizations may file under Subchapter T (I.R.C. Section 1381-1388). The Corporation is subject to taxation as a cooperative corporation for federal, state, and local purposes. A cooperative corporation is required to classify its income and expenses as patronage or nonpatronage. Expenses attributable to producing patronage income cannot be deducted from nonpatronage income. As a result, nonpatronage income in excess of allocable expenses is subject to income tax. Patronage income is defined as income derived from an activity that is so closely intertwined with the main cooperative effort that it may be characterized as directly related to, and inseparable from, the cooperative's principal business activity, and thus facilitates the accomplishment of the cooperative's business purpose. However, if the transaction or activity which produces the income merely enhances the overall profitability of the cooperative, then the income therefrom is nonpatronage income. The Corporation believes there is substantial authority to classify all its activity as patronage, and for the years ended December 31, 2020 and 2019, no provision for income tax is required. The Corporation also believes that if certain activities are determined to be nonpatronage, the expenses allocable to such activities would result in no taxable income.

Additionally, under Code Section 216, tenant-stockholders may deduct their proportionate share of both real estate taxes paid by the Corporation and interest allowable as a deduction to the Corporation that is paid or incurred by the Corporation on its indebtedness.

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE #5 - INCOME TAXES (Continued)

The Corporation follows the provisions of FASB ASC 740, "Accounting for Uncertainty in Income Taxes", which prescribed a comprehensive model for the measurement, recognition, presentation, and disclosure in its financial statements of uncertain tax positions that the company has taken or expects to be taken on a tax return. The Corporation recognizes the tax benefits from uncertain tax positions only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Corporation's income tax filings are no longer subject to audit by various taxing authorities for the years before December 31, 2017.

NOTE #6 - 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. In July 2017, the Corporation conducted a study to estimate the remaining useful lives of common property components. The estimates were obtained from a licensed engineer who inspected the property. The costs of future major repairs and replacements are estimated and presented on Page 11.

NOTE #7 - CONCENTRATION OF CREDIT RISK

The Corporation maintains balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At December 31, 2020, the Corporation had balances at financial institutions in excess of their limits.

NOTE #8 - CONTINGENCIES

On June 20, 2017, the Corporation received a letter from the Office of the Fire Marshal, from City of New Haven Department of Fire Service, indicating that on October 1, 2016 the State of Connecticut had adopted the 2012 NFPA 101, Life Safety Code to be used on existing buildings as a part of the 2016 Connecticut Fire Safety Code and will require all buildings to be in compliance by July 1, 2021. Within this code there have been changes to the existing high rise structures, in particular the installation of a fire sprinkler system. The Fire Marshal required the Corporation to engage a licensed engineer to conduct an analysis of the building's life safety systems to provide formal documentation of the building's compliance with the new regulations. The results of the engineer's analysis indicated the building is not in compliance with the new regulations thus requiring additional work to be done to ensure the building's compliance. Upon seeking legal council, the Board of Directors believes that there are a number of exemptions from the new regulations that the Corporation may qualify for, and have decided to obtain a second opinion from an alternative engineering firm. At this time, a possible cost cannot be reasonably estimated.

NOTE #9 - TREASURY STOCK

During the years ended December 31, 2020 and 2019, the Corporation foreclosed on two units and one unit, respectively, and acquired the shares.

UNIVERSITY TOWERS OWNERS' CORPORATION
SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
Year ended December 31, 2020

The Association's board of directors conducted a study in July 2017 to determine the replacement costs of components of common property as well as major repairs and their estimated useful lives. The estimates were obtained from a licensed engineer who inspected the property. Since the study was conducted, the Association has begun work on some of the projects, and is presenting the estimated remaining cost, below.

Components	Estimated Remaining Useful Life (Years)	Estimated Replacement Cost Based on Study	Estimated Remaining Work
Balconies	9-39	1,731,375	630,275
Doors	12	120,000	120,000
Electrical	8-20	158,400	158,400
Elevators	12-28	1,050,000	1,050,000
Façade	12-44	419,000	419,000
Fire Detection	12	45,000	45,000
Fire Protection	21	65,000	65,000
Furniture	16	6,000	6,000
HVAC	2-26	724,950	724,950
Interior Finish	5-25	813,992	813,992
Irrigation	13	13,500	13,500
Parking Garage	13-14	863,210	335,960
Parking Lot	3-23	130,011	130,011
Plumbing	6-15	271,700	271,700
Refuse	8-10	31,700	31,700
Roofs	6-20	614,775	614,775
Security	2	28,500	28,500
Swimming Pool	2-19	134,265	134,265
Walkways	3-18	162,212	20,912
Total		\$ 7,383,590	\$ 5,613,940