

UNIVERSITY TOWERS OWNERS' CORPORATION

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2023 and 2022

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of University Towers Owners' Corporation, which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in accumulated deficit and cash flows for the years then ended, and the related notes to the financial statements.

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, 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 University Towers Owners' 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 University Towers Owners' Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance

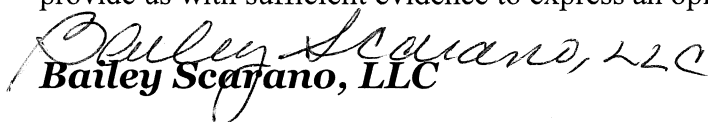
with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements. In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University Towers Owners' Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about University Towers Owners' Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 12 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 Scavano, LLC

Branford, Connecticut
October 16, 2024

UNIVERSITY TOWERS OWNERS' CORPORATION
BALANCE SHEETS
December 31, 2023 and 2022

	2023	2022
<u>ASSETS</u>		
Cash	\$ 482,792	\$ 323,182
Investments	898,012	901,700
Real estate tax escrow	624,009	566,330
Insurance escrow	59,106	71,122
Tenant-stockholder receivables, net of allowance for doubtful accounts of \$34,933 and \$75,000 in 2023 and 2022	95,309	117,995
Rent receivable	2,463	42,197
Other receivables	4,444	-
Prepaid expenses	94,605	82,000
Deposits	-	1,870
Property and equipment, net of accumulated depreciation	13,597,368	14,484,041
	<u>\$ 15,858,108</u>	<u>\$ 16,590,437</u>
Total		
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Mortgage payable	\$ 22,717,164	\$ 23,224,643
Less: unamortized debt issuance costs	27,467	38,454
Mortgage payable, less unamortized debt issuance costs	22,689,697	23,186,189
Accounts payable	83,679	106,882
Accrued expenses	88,029	133,159
Accrued property taxes	668,575	606,782
Tenant-stockholder receivables received in advance	75,616	158,370
Rent received in advance	2,463	16,391
Security deposits	-	4,188
	<u>23,608,059</u>	<u>24,211,961</u>
Total		
<u>STOCKHOLDERS' DEFICIT</u>		
Common stock, par value \$.50, authorized 100,000 shares; issued 89,736, shares; outstanding 88,927 shares in 2023 and 2022	44,868	44,868
Additional paid-in capital	5,094,360	5,094,360
Accumulated deficit	(12,858,956)	(12,730,529)
	<u>(7,719,728)</u>	<u>(7,591,301)</u>
Total		
Less, treasury stock at cost, 322 shares in 2023 and 2022	30,223	30,223
	<u>(7,749,951)</u>	<u>(7,621,524)</u>
Total		
	<u>\$ 15,858,108</u>	<u>\$ 16,590,437</u>

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN ACCUMULATED DEFICIT
Years ended December 31, 2023 and 2022

	2023	2022
REVENUES		
Maintenance charges	\$ 3,731,622	\$ 3,729,013
Rental	447,010	483,563
Parking	171,602	178,055
Miscellaneous	42,510	18,715
Interest	37,544	3,805
Maintenance income	29,903	75,404
Laundry commission	21,911	11,933
	4,482,102	4,500,488
Total		
EXPENSES		
Interest	1,058,078	1,080,757
Property taxes	912,035	827,631
Personnel costs	776,565	750,223
Building maintenance	313,722	461,843
Management fee	156,529	155,712
Insurance	127,878	113,450
Water and sewer	100,824	94,692
Gas and fuel oil	86,731	97,086
Electric	83,226	96,008
Professional fees	69,890	75,557
Administrative	17,430	26,957
Telephone	16,969	17,021
Uniforms	3,979	-
Bad debts	-	25,027
	3,723,856	3,821,964
Total		
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS BEFORE DEPRECIATION	758,246	678,524
DEPRECIATION	886,673	895,705
EXCESS OF EXPENSES OVER REVENUES	(128,427)	(217,181)
BEGINNING ACCUMULATED DEFICIT	(12,730,529)	(12,513,348)
ENDING ACCUMULATED DEFICIT	\$ (12,858,956)	\$ (12,730,529)

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of expenses over revenues	\$ (128,427)	\$ (217,181)
Adjustments to reconcile excess of expenses over revenues to net cash provided by operating activities:		
Depreciation	886,673	895,705
Amortization of debt issuance costs	10,987	10,987
Bad debts	-	25,027
(Increase) decrease in:		
Real estate tax escrow	(57,679)	(52,049)
Insurance escrow	12,016	(5,164)
Tenant-stockholder receivables	22,686	(52,735)
Rent receivable	39,734	50,550
Other receivables	(4,444)	4,926
Prepaid expenses	(12,605)	(5,680)
Deposits	1,870	-
(Decrease) increase in:		
Accounts payable	(23,203)	(43,629)
Accrued expenses	(45,130)	22,839
Accrued property taxes	61,793	55,767
Tenant-stockholder receivables received in advance	(82,754)	15,674
Rent received in advance	(13,928)	(3,406)
Security deposits	(4,188)	128
Total adjustments	791,828	918,940
NET CASH PROVIDED BY OPERATING ACTIVITIES	663,401	701,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	1,803,446	-
Purchases of investments	(1,799,758)	(901,700)
Purchase of capital improvements	-	(37,452)
Proceeds from sales of foreclosed unit	-	42,872
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES	3,688	(896,280)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on mortgage payable	(507,479)	(484,889)
NET CASH USED IN FINANCING ACTIVITIES	(507,479)	(484,889)
NET INCREASE (DECREASE) IN CASH	159,610	(679,410)
CASH AT BEGINNING OF YEAR	323,182	1,002,592
CASH AT END OF YEAR	\$ 482,792	\$ 323,182

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
STATEMENTS OF CASH FLOWS (Continued)
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 1,071,649</u>	<u>\$ 1,093,239</u>

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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.

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.

Property and Equipment

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

	<u>2023</u>	<u>2022</u>
Land	\$ 445,576	\$ 445,576
Building	8,060,615	8,060,615
Improvements	21,487,214	21,487,214
Equipment	<u>154,934</u>	<u>154,934</u>
	30,148,339	30,148,339
Less accumulated depreciation	<u>16,550,971</u>	<u>15,664,298</u>
Total	<u>\$13,597,368</u>	<u>\$14,484,041</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, 2023 and 2022 is \$886,673 and \$895,705, respectively.

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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.

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 October 16, 2024, the date on which the financial statements were available to be issued.

Investments

The Corporation's investments are classified and accounted for as follows:

Held-to-Maturity: Government securities and corporate bonds which the Corporation has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period of maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in fair value of held-to-maturity securities below their cost that are deemed to be other than temporary is reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using specific identification method.

NOTE#2 – INVESTMENTS

The amortized cost and estimated fair value of securities held-to-maturity at December 31, 2023 are as follows:

	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Estimated Fair Value</u>
Government Securities	\$ 898,012	\$ 12,932	\$ -	\$ 910,944

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE#2 – INVESTMENTS (Continued)

The amortized cost and estimated fair value of securities held-to-maturity at December 31, 2022 are as follows:

	Amortized <u>Cost</u>	Unrealized <u>Gains</u>	Unrealized <u>Losses</u>	Estimated Fair <u>Value</u>
Government Securities	\$ 901,700	\$ 5,470	\$ -	\$ 907,170

The amortized cost and estimated fair value of securities held-to-maturity at December 31, 2023 and 2022 have contractual maturities that are one year or less. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Market changes in interest rates and market changes in credit spreads will cause normal fluctuations in the market price of securities and the possibility of temporary unrealized gains and losses. The Corporation does not intend to sell these securities, and it is more likely than not that the Corporation will not be required to sell before a period of time sufficient to allow for any recovery in cost. All securities owned by the Corporation are payable at par at maturity. The Corporation determined that there was no other-than-temporary impairment associated with these securities at December 31, 2023 and 2022.

NOTE #3 - MORTGAGE PAYABLE

Mortgage payable consists of:

	<u>2023</u>	<u>2022</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.	\$22,717,164	\$ 23,224,643
Less: Unamortized debt issuance costs	<u>27,467</u>	<u>38,454</u>
Total mortgage payable, less unamortized debt issuance costs	<u>\$22,689,697</u>	<u>\$23,186,189</u>

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.

Payments of principal are due as follows:

2024	\$ 528,196
2025	555,733
2026	<u>21,633,235</u>
	<u>\$ 22,717,164</u>

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 \$41,000. Rentals over the remainder of the lease terms aggregate approximately \$419,000.

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, 2023 and 2022, 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.

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 corporation 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, 2020.

UNIVERSITY TOWERS OWNERS' CORPORATION
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 12. In 2022, the coop's Buildings & Grounds committee created a more global project forecast for the next 5 years; it is attached here. In 2025, the building will receive an updated report with professional estimates assigned for the forecast projects.

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, 2023, 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. The updated code included changes to requirement for existing high-rise structures that mandated the inclusion of a fire sprinkler system. The Fire Marshal required the Corporation to engage a licensed Fire Safety engineer to conduct an analysis of the building's existing fire/life safety systems to provide formal documentation for the building's compliance with the new regulations. One solution suggested by the code is the installation of sprinkler systems throughout the structure but an option to propose a customized Fire Safety Plan of improvements is included. SPARC Fire Protection Engineering, LLC, a licensed engineering firm, was hired in April 2022. They have collaborated with the Board of Directors in the creation of a report analyzing existing conditions and defining a program of Fire Safety improvements to meet the alternate method option, with partial sprinkler installation and other improvements, to support the building's compliance. UT's Appeal submission to the City and State Fire Marshal was received by New Haven Fire Marshall Scott Dillon on May 25, 2023 for review. As soon as it receives confirmation of the scope for the Fire/Safety compliance, UT will determine how to phase and fund the required changes.

NOTE #9 – TREASURY STOCK

During the year ended December 31, 2022, the Corporation sold two previously acquired units.

UNIVERSITY TOWERS OWNERS' CORPORATION
SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS
Year ended December 31, 2023

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		<u>\$ 7,383,590</u>	<u>\$ 5,613,940</u>