

UNIVERSITY TOWERS OWNERS' CORPORATION

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT MICHAEL J. SCHAEFER, CPA (1953 - 2014)  
ALAN P. BAILEY, CPA (1928 - 2014)

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, 2021 and 2020, 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.

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, 2021 and 2020, 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 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 3, 2022

UNIVERSITY TOWERS OWNERS' CORPORATION  
BALANCE SHEETS  
December 31, 2021 and 2020

	2021	2020
<u>ASSETS</u>		
Cash	\$ 1,002,592	\$ 1,150,966
Real estate tax escrow	514,281	514,281
Insurance escrow	65,958	60,668
Tenant-stockholder receivables, net of allowance for doubtful accounts of \$50,000 in 2021 and 2020	90,287	155,842
Rent receivable	92,747	37,126
Other receivables	4,926	4,065
Deposits	1,870	1,870
Prepaid expenses	76,320	76,275
Property and equipment, net of accumulated depreciation	15,342,294	16,101,539
Total	\$ 17,191,275	\$ 18,102,632
 <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Mortgage payable	\$ 23,709,532	\$ 24,172,834
Less: unamortized debt issuance costs	49,441	60,427
Mortgage payable, less unamortized debt issuance costs	23,660,091	24,112,407
Accounts payable	150,511	75,672
Accrued expenses	110,320	112,587
Accrued property taxes	551,015	551,015
Tenant-stockholder receivables received in advance	142,696	126,202
Rent received in advance	19,797	17,371
Security deposits	4,060	2,586
Total	24,638,490	24,997,840
 <u>STOCKHOLDERS' DEFICIT</u>		
Common stock, par value \$.50, authorized 100,000 shares; issued 89,736, shares; outstanding 88,927 and 89,084 shares in 2021 and 2020	44,868	44,868
Additional paid-in capital	5,174,829	5,192,810
Accumulated deficit	(12,513,348)	(12,031,380)
Total	(7,293,651)	(6,793,702)
Less, treasury stock at cost, 809 and 652 shares in 2021 and 2020	153,564	101,506
Total	(7,447,215)	(6,895,208)
Total	\$ 17,191,275	\$ 18,102,632

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION  
 STATEMENTS OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT  
 Years ended December 31, 2021 and 2020

	2021	2020
REVENUES		
Maintenance charges	\$ 3,559,174	\$ 3,527,260
Rental	465,393	540,828
Parking	182,750	194,920
Maintenance income	56,663	40,182
Miscellaneous	15,450	11,549
Laundry commission	13,745	12,772
Rental commission	3,492	2,898
Interest	267	2,038
	4,296,934	4,332,447
Total		
EXPENSES		
Interest	1,102,430	1,126,176
Personnel costs	798,178	771,955
Property taxes	734,687	738,454
Building maintenance	367,668	346,935
Professional fees	165,450	133,692
Management fee	152,659	149,666
Insurance	106,566	99,957
Electric	108,169	96,083
Water and sewer	89,093	82,184
Gas and fuel oil	74,163	63,633
Administrative	35,925	30,810
Telephone	15,766	11,644
Bad debts	-	20,000
	3,750,754	3,671,189
Total		
EXCESS OF REVENUES OVER EXPENSES FROM OPERATIONS BEFORE DEPRECIATION	546,180	661,258
DEPRECIATION	1,028,148	1,100,020
EXCESS OF EXPENSES OVER REVENUES	(481,968)	(438,762)
BEGINNING ACCUMULATED DEFICIT	(12,031,380)	(11,592,618)
ENDING ACCUMULATED DEFICIT	\$ (12,513,348)	\$ (12,031,380)

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION  
STATEMENTS OF CASH FLOWS  
Years ended December 31, 2021 and 2020

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Excess of expenses over revenues	\$ (481,968)	\$ (438,762)
Adjustments to reconcile excess of expenses over revenues to net cash provided by operating activities:		
Depreciation	1,028,148	1,100,020
Amortization of debt issuance costs	10,987	10,987
Bad debts	-	20,000
(Increase) decrease in:		
Real estate tax escrow	-	(118,490)
Insurance escrow	(5,290)	(12,849)
Tenant-stockholder receivables	65,555	9,781
Rent receivable	(55,621)	(11,150)
Other receivables	(861)	152
Prepaid expenses	(45)	(6,291)
(Decrease) increase in:		
Accounts payable	74,839	(21,579)
Accrued expenses	(2,267)	(2,208)
Accrued property taxes	-	11,301
Tenant-stockholder receivables received in advance	16,494	(61,909)
Rent received in advance	2,426	(5,575)
Security deposits	1,474	(1,600)
Total adjustments	1,135,839	910,590
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	653,871	471,828
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of foreclosed unit	24,998	-
Purchase of capital improvements	(268,904)	(231,905)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	(243,906)	(231,905)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on mortgage payable	(463,302)	(439,644)
Purchase of treasury stock	(95,037)	(58,527)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	(558,339)	(498,171)
<b>NET DECREASE IN CASH</b>	(148,374)	(258,248)
<b>CASH AT BEGINNING OF YEAR</b>	1,150,966	1,409,214
<b>CASH AT END OF YEAR</b>	\$ 1,002,592	\$ 1,150,966

See accompanying notes and independent auditors' report.

UNIVERSITY TOWERS OWNERS' CORPORATION  
STATEMENTS OF CASH FLOWS (Continued)  
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid during the year for:		
Interest	<u>\$ 1,093,239</u>	<u>\$ 1,133,432</u>

See accompanying notes and independent auditors' report.



UNIVERSITY TOWERS OWNERS' CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2021 and 2020

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>2021</u>	<u>2020</u>
Land	\$ 445,576	\$ 445,576
Building	8,060,615	8,060,615
Improvements	21,457,738	21,194,886
Equipment	<u>146,959</u>	<u>140,907</u>
	30,110,888	29,841,984
Less accumulated depreciation	<u>14,768,594</u>	<u>13,740,445</u>
Total	<u>\$15,342,294</u>	<u>\$16,101,539</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, 2021 and 2020 is \$1,028,148 and \$1,100,020, respectively.

UNIVERSITY TOWERS OWNERS' CORPORATION  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2021 and 2020

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 May 3, 2022, the date on which the financial statements were available to be issued.

NOTE #3 - MORTGAGE PAYABLE

Mortgage payable consists of:

	2021	2020
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.	\$23,709,532	\$24,172,834
Less: Unamortized debt issuance costs	49,441	60,427
Total mortgage payable, less unamortized debt issuance costs	\$23,660,091	\$24,112,407

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:

2022	\$ 484,888
2023	507,480
2024	528,196
2025	555,733
2026	21,633,235
	\$ 23,709,532

UNIVERSITY TOWERS OWNERS' CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 2020

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 \$39,000. Rentals over the remainder of the lease terms aggregate approximately \$1,206,000.

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, 2021 and 2020, 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 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, 2018.

UNIVERSITY TOWERS OWNERS' CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 and 2020

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, 2021, 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. In April 2022 the Board hired SPARC Fire Protection, a licensed engineering firm, to review the building fire/life safety components and provide a code compliant solution to the current Fire Code for highrise buildings . Although the solution is unknown at this point, UT expects that the building analysis and solution will be completed and submitted to the City by December 2022, based on the timeline expressed by SPARC.

NOTE #9 – TREASURY STOCK

During the years ended December 31, 2021 and 2020, the Corporation foreclosed on one unit and two units, respectively, and acquired the shares.

UNIVERSITY TOWERS OWNERS' CORPORATION  
SUPPLEMENTARY INFORMATION  
FUTURE MAJOR REPAIRS AND REPLACEMENTS  
Year ended December 31, 2021

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>