

Riverwalk Place
(A Condominium Association)
Financial Statements and
Supplementary Information
December 31, 2019



MAZARS

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Independent Auditors' Report

To the Members of
Riverwalk Place

We have audited the accompanying financial statements of Riverwalk Place (a New York condominium association), which comprise the balance sheet as of December 31, 2019, and the related statements of income, changes in members' equity and cash flows for the year 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 these financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Riverwalk Place as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

MAZARS USA LLP

October 16, 2020

MAZARS USA LLP

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Riverwalk Place

Balance Sheet *December 31, 2019*

Assets

Cash - operating	\$ 302,809
Cash and cash equivalents - working capital fund	1,041,415
Accounts receivable - members	42,305
Prepaid expenses and other assets	63,838
Common area improvements, furniture and equipment, net	<u>857,238</u>
Total assets	<u>\$ 2,307,605</u>

Liabilities and Members' Equity

Liabilities

Accounts payable and accrued expenses	\$ 51,647
Prepaid maintenance fees	<u>22,257</u>
Total liabilities	73,904

Members' equity	<u>2,233,701</u>
Total liabilities and members' equity	<u>\$ 2,307,605</u>

The accompanying notes are an integral part of these financial statements.

Riverwalk Place

Statement of Income

Year Ended December 31, 2019

Revenues

Residential	\$ 2,208,228
Commercial	22,071
Other income	<u>144,743</u>
Total revenues	<u>2,375,042</u>

Expenses

Payroll, payroll taxes and employee benefits	906,646
Utilities	207,039
Water and sewer	120,423
Operating	50,185
Repairs and maintenance	301,527
Insurance	124,845
Management fees	100,000
Professional fees	14,411
Rent - superintendent's unit	50,629
Additional rent	80,050
Administrative expenses	58,773
Depreciation	<u>97,240</u>
Total expenses	<u>2,111,768</u>

Net income	<u><u>\$ 263,274</u></u>
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The accompanying notes are an integral part of these financial statements.

Riverwalk Place

Statement of Changes in Members' Equity *Year Ended December 31, 2019*

Balance - January 1, 2019	\$ 1,970,427
Net income	<u>263,274</u>
Balance - December 31, 2019	<u><u>\$ 2,233,701</u></u>

The accompanying notes are an integral part of these financial statements.

Riverwalk Place

Statement of Cash Flows *Year Ended December 31, 2019*

Cash flows from operating activities	
Net income	\$ 263,274
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	97,240
Increase (decrease) in cash resulting from changes in operating assets and liabilities	
Accounts receivable - members	(33,670)
Prepaid expenses and other assets	(9,023)
Accounts payable and accrued expenses	(201,858)
Prepaid maintenance fees	3,390
Net cash provided by operating activities	<u>119,353</u>
Cash flows used in investing activities	
Additions to common area improvements, furniture and equipment	<u>(233,814)</u>
Net decrease in cash and restricted cash	(114,461)
Cash and restricted cash - beginning of year	<u>1,458,685</u>
Cash and restricted cash - end of year	<u>\$ 1,344,224</u>

The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements *Year Ended December 31, 2019*

1. Businesses and Summary of Significant Accounting Policies

Description of Business

Riverwalk Place (the “Association”) is a New York condominium association organized on January 19, 2006, pursuant to Article 9-B of the Real Property Law of the State of New York, for the purposes of operating and maintaining the common property of Riverwalk Place. The Association consists of 230 residential units and two commercial units, which are approximately 235,000 gross square feet located in Roosevelt Island, New York (the “Project”).

Basis of Accounting

The accompanying financial statements have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America.

Cash

The Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

The Association maintains cash in financial institutions that at various times during the year ended December 31, 2019, exceeded the federally-insured limits.

Accounts Receivable – Members

The Association’s members are subject to monthly assessments to provide funds for the Association’s operating expenses, future capital acquisitions and major repairs and replacements. Accounts receivable at the balance sheet date represent assessments due from members. The Association’s policy is to retain legal counsel and place liens on the units of members whose assessments are thirty days or more delinquent. Any excess assessments at the end of the year are retained by the Association for use in future years.

Common Area Improvements, Furniture and Equipment

Common area improvements and furniture and equipment are recorded at cost and depreciated on the straight-line basis over the estimated useful lives of the assets. For the year ended December 31, 2019, depreciation expense totaled \$97,240.

Generally accepted accounting principles require that impairment losses be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount. Through December 31, 2019, based on assessment of the factors, there has been no need to record impairment losses.

Income Taxes

The Association is taxed as a regular corporation unless it elects to be taxed as a homeowners’ association under Section 528 of the Internal Revenue Code. Under Section 528 of the Internal Revenue Code, a homeowners’ association is not taxed on the members’ assessments and other income received from association members solely as a function of their membership in the homeowners’ association. A homeowners’ association is taxed at the rate of 30% on non-exempt function income, which includes interest income and revenues received from non-members. This is an annual election by a homeowners’ association based upon whichever results in a lower income tax liability.

For the year ended December 31, 2019, the Association has elected to be taxed as a homeowners' association under Section 528 of the Internal Revenue Code.

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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Working Capital Fund

The Association maintains an interest bearing working capital fund to fund costs as determined by the residential board of managers. The working capital fund is funded through the members' mandatory contribution due upon the purchase of their units. Contributions were equal to two months common charge assessment. On April 1, 2013, the contribution amount was increased to four months of the common charge assessment and two months on rental of units. As of December 31, 2019, the working capital fund balance was \$1,041,415 of which \$795,000 of the total balance is maintained in federally-insured certificates of deposit having received interest income of approximately \$24,500 during the year.

Accounting Policy

Effective for the year ended December 31, 2019, the Association implemented ASU 2016-18, Restricted Cash (ASU 2016-18). Accordingly, amounts generally described as restricted cash are included with cash and cash equivalents when reconciling beginning-of-period and end-of-period totals on the statement of cash flows. In accordance with ASU 2016-18, the prior year cash flow has been restated to comply with the new standard. The effect of this change resulted in an increase in cash and restricted cash of \$1,264,142 from the amount previously reported for the year ended December 31, 2018.

The following table provides a reconciliation of cash and restricted cash as reported within the balance sheet to the same items as reported in the cash flow statement.

Cash - operating	\$ 302,809
Cash - working capital fund	<u>1,041,415</u>
Total cash and restricted cash	<u><u>\$ 1,344,224</u></u>

2. Commercial Unit Members' Assessments

The commercial unit owners share the cost of certain expenses based on the commercial percentage interest in the common element as disclosed in the condominium offering plan. For the year ended December 31, 2019, commercial unit common charges amounted to \$22,071.

3. Ground Lease and Additional Rent - RIOC

The Association has a ground lease with Roosevelt Island Operating Corporation ("RIOC") for a period of 64 years, expiring on December 22, 2068. On May 15, 2006, Riverwalk Place LLC (the "Sponsor") made a lump-sum payment (the "Specified Rental Payment") to RIOC in lieu of making any monthly payments of ground rent. The amount of the Specified Rental Payment was \$3,407,425 for the residential units in the Project and \$162,456 for the commercial units. The Specified Rent Payment was based on a calculation as provided for in the ground lease. As additional rent, the Association pays a public safety payment, which is based on \$20 per Residential Unit per month (\$4,600) starting September 1, 2006, which will increase at the rate of 3% per annum. For the year ended December 31, 2019, additional rent expense amounted to \$80,050.

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4. Common Area Improvements, Furniture and Equipment

As of December 31, 2019, common area improvements and furniture and equipment consist of the following:

		Estimated Useful Life in Years
Common area improvements	\$ 864,429	5-15
Furniture and equipment	166,322	5
	<u>1,030,751</u>	
Less accumulated depreciation	(173,513)	
Common area improvements, furniture and equipment, net	<u>\$ 857,238</u>	

5. Rent Expense

On March 19, 2016, the Association entered into an apartment lease agreement with an individual unit owner to lease a two-bedroom apartment for the resident manager of the common property at a rate of \$46,800 for the first year and \$47,400 for the second year. Subsequently, in 2017, the lease was extended for an additional 2 years at a rate of \$47,400 annually, expiring on March 31, 2020. In 2019, the Association entered into a new lease for 5 years at a rate of \$49,200 annually for the first two years of the lease term and \$50,400 annually for the third, fourth, and fifth year, beginning March 1, 2019 and expiring on February 24, 2024.

Future minimum rents are as follows:

Year Ended December 31,	
2020	\$ 49,200
2021	50,200
2022	50,400
2023	50,400
2024	<u>8,400</u>
	<u>\$ 208,600</u>

6. Management Agreement

In April 2016, the Association entered into a 5-year management agreement with Rose Associates, Inc. ("Rose"). The agreement stipulates that Rose shall receive an annual management fee of \$100,000. In addition, Rose shall receive certain fees from members in connection with lease renewal applications, applications for appraisal or mortgage refinancing and alterations and renovations of residential units, more fully described in the management agreement. For the year ended December 31, 2019, management fees incurred and paid amounted to \$100,000.

7. New York City Real Property Taxes

The Project is exempt from New York City real property taxes by virtue of its ownership by the City of New York or RIOC until the 2025/2026 tax year. Beginning with the 2025/2026 tax year and during the remainder of the term of the ground lease, each unit owner will pay as part of a common charge a payment in lieu of real estate taxes ("PILOT") equal to the unit owner's common interest multiplied by the product of PILOT and the applicable PILOT percentage as defined in the offering plan.

8. Welfare and Pension Benefits

The Association contributes to multiemployer defined benefit pension plans under the terms of the collective bargaining agreements that cover its union-represented employees. The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

- a) Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

If the Association chooses to stop participating in the multiemployer plan, the Association may be required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. The Association's participation in this plan for the year ended December 31, 2019 is outlined in the table below. The "EIN/Plan Number" column provides the Employee Identification Number ("EIN") and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act ("PPA") zone status available in 2019 is for the plan's year end at June 30, 2019. The zone status is based on information that the Association received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject:

Pension Fund	EIN/Plan Number	Pension Protection Zone Status	FIR/RP Status Pending Implemented	Contribution 2019	Surcharge	Expiration Date of Collective Bargaining Agreement
Building Service 32BJ	13-1879376	Red as of 7/1/2019	Yes	\$ 239,867	No	4/20/2022

The Association's contributions to the Building Service 32BJ pension fund for the plan year ended December 31, 2019 did not represent more than 5% of the total contributions to the plan.

9. Future Major Repairs and Replacements

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. In February 2013, the Association conducted a study to estimate the remaining useful lives and replacement costs of the components of common property. The study has been approved by the board of directors. The Association plans to use the funds reserved under the working capital fund for these expenditures. As of December 31, 2019, the working capital fund balance was \$1,041,415.

10. Subsequent Events

A novel strain of coronavirus (COVID-19) has surfaced. The spread of COVID-19 around the world has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Association is unable to determine if it will have a material impact to its operations.

The Association has evaluated subsequent events through October 16, 2020, the date these financial statements were available to be issued. No material subsequent event has occurred since December 31, 2019, other than noted above, that required recognition or disclosure in the financial statements.

Independent Auditors' Report on Supplementary Information

To the Members of
Riverwalk Place

We have audited the financial statements of Riverwalk Place as of and for the year ended December 31, 2019, and our report thereon dated October 16, 2020, which expressed an unmodified opinion on those financial statements, appears on page 1. Accounting principles generally accepted in the United States of America require that supplementary information on future major 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, who considers it to be an essential part of 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 inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, 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.

MAZARS USA LLP

October 16, 2020

MAZARS USA LLP

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Riverwalk Place

Estimated Future Major Repairs and Replacements (Unaudited) *December 31, 2019*

The Riverwalk Place Condominium Board conducted a study in February 2013 to estimate the remaining useful lives and the replacement cost of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property. Estimated current replacement costs reflected in the table below do not take into account the effect of inflation between the date of the study and the date that the respective components are projected to require repair or replacement.

Building Components	Estimated Project Cost	2020	2021	2022	2023	2024	Thereafter
Interiors	\$ 437,650	\$ 28,907	\$ 28,907	\$ 28,907	\$ 28,907	\$ 28,907	\$ 293,115
Exteriors	704,790	56,458	56,458	56,458	41,458	41,458	452,500
HVAC	59,895	5,729	5,729	5,729	5,729	5,729	31,250
Elevator	333,335	16,667	16,667	16,667	16,667	16,667	250,000
Common areas	232,199	18,258	18,258	18,258	18,258	18,258	140,909
	<u>\$ 1,767,869</u>	<u>\$ 126,019</u>	<u>\$ 126,019</u>	<u>\$ 126,019</u>	<u>\$ 111,019</u>	<u>\$ 111,019</u>	<u>\$ 1,167,774</u>

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