

76TH STREET OWNERS' CORP.

**Financial Statements
as of December 31, 2010 and 2009
and for the years then ended**

Syed N. Haque, CPA

INDEPENDENT AUDITOR'S REPORT

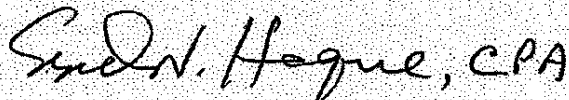
To the Board of Directors and Stockholders of
76th Street Owners' Corp.:

We have audited the accompanying balance sheets of 76th Street Owners' Corp. (the "Corporation") as of December 31, 2010 and 2009, and the related statements of revenues, expenses and accumulated deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 76th Street Owners' Corp. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in United States of America.

As discussed in Note 11, the Corporation has not estimated the remaining lives and replacement costs of the real property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that will be required in the future that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.



Rego Park, New York
June 3, 2011

76TH STREET OWNERS' CORP.
(A Cooperative Housing Corporation)

BALANCE SHEETS
as of December 31, 2010 and 2009

ASSETS:	<u>2010</u>	<u>2009</u>
Cash (Note 3)	\$616,934	\$539,942
Receivables from shareholders (Note 4)	104,266	22,603
Prepaid expenses (Note 5)	41,345	48,782
Deferred mortgage refinancing costs, net of accumulated amortization of \$28,599 and \$25,076 (Note 2)	6,629	10,152
Property and improvements, net of accumulated depreciation of \$4,981,120 and \$4,763,804 (Notes 2 and 6)	2,448,059	2,634,923
Other	1,268	
Total assets	<u>\$3,218,501</u>	<u>\$3,256,402</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable and accrued expenses	\$88,371	\$54,475
Deferred maintenance charges	26,695	9,559
Due to shareholders	26,659	27,326
Mortgage note payable (Note 7)	2,271,506	2,321,380
Other	6,575	5,335
Total liabilities	<u>2,419,806</u>	<u>2,418,075</u>
Stockholders' equity:		
Common stock, par value \$1; authorized 80,000 shares; issued and outstanding 74,715 shares	74,715	74,715
Additional paid-in capital	5,355,923	5,355,923
Accumulated deficit	<u>(4,631,943)</u>	<u>(4,592,311)</u>
Total stockholders' equity	798,695	838,327
Total liabilities and stockholders' equity	<u>\$3,218,501</u>	<u>\$3,256,402</u>

The accompanying notes are an integral
part of these financial statements

76TH STREET OWNERS' CORP.
(A Cooperative Housing Corporation)

STATEMENTS OF REVENUES, EXPENSES AND ACCUMULATED DEFICIT
for the years ended December 31, 2010 and 2009

	2010	2009
REVENUES:		
Maintenance charges (Note 2)	\$865,729	\$865,729
Rent income - storage bins	17,750	18,005
Interest income	8,041	4,666
Laundry income	9,600	9,600
Special assessments (Note 12)	53,399	
Legal fees income (Note 14)	78,044	
Other income	1,616	2,090
Total revenues	1,034,179	900,090
EXPENSES:		
Payroll and related expenses	118,876	117,586
Real estate taxes	210,223	196,097
Interest expenses	132,133	134,931
Fuel	120,655	98,509
Gas and electric	24,661	22,007
Repairs, maintenance and supplies	49,067	68,644
Insurance	47,210	49,380
Professional fees	91,875	18,890
Water and sewer	34,468	29,628
Management fees (Note 9)	17,500	17,000
Income taxes (Note 8)	2,684	5,220
License and permits	589	1,547
Telephone	2,658	2,921
Other	372	809
Total expenses before depreciation and amortization	852,971	763,169
Excess of revenues over expenses before depreciation and amortization	181,208	136,921
Less: depreciation and amortization	(220,840)	(219,990)
Deficiency of revenues over expenses	(39,632)	(83,069)
Accumulated deficit at January 1, 2010 and 2009	(4,592,311)	(4,509,242)
Accumulated deficit at December 31, 2010 and 2009	(\$4,631,943)	(\$4,592,311)

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part of these financial statements

76TH STREET OWNERS' CORP.
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STATEMENTS OF CASH FLOWS
for the years ended December 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	(\$39,632)	(\$83,069)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	220,840	219,990
Decrease (increase) in:		
Receivables from shareholders	(81,663)	(9,603)
Prepaid expenses	7,437	(19,962)
Other	(1,268)	
Increase (decrease) in:		
Accounts payable and accrued expenses	33,896	18,358
Deferred maintenance charges	17,136	(10,965)
Due to shareholders	(667)	4,861
Due to sponsor		(15,442)
Other	1,240	870
Net cash provided by operating activities	157,319	105,038
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in property and improvements	(30,453)	(5,129)
Net cash used in investing activities	(30,453)	(5,129)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in mortgage note payable	(49,874)	(47,090)
Net cash used in financing activities	(49,874)	(47,090)
Net increase in cash	76,992	52,819
Cash, beginning of year	539,942	487,123
Cash, end of year	\$616,934	\$539,942
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS:		
Interest paid	\$132,377	\$135,161
Income taxes paid	\$2,788	\$5,182

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76TH STREET OWNERS' CORP.
(A Cooperative Housing Corporation)

NOTES TO FINANCIAL STATEMENTS

1. Organization:

76th Street Owners' Corp. (the "Corporation"), a cooperative housing corporation, was incorporated in the State of New York on June 4, 1984. The Corporation owns the building located at 35-36 76th Street, Jackson Heights, New York. This building has 114 residential units, and a superintendent apartment.

2. Summary of Significant Accounting Policies:

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.

Property and improvements are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the individual assets.

Deferred mortgage refinancing costs are amortized on the straight-line method over the term of the loan. Amortization on the interest method would not be materially different.

Maintenance charges are based on an annual budget determined by the board of directors. Shareholders are billed monthly based on their respective share holdings. The Corporation retains excess operating funds, if any, at the end of the operating year, for use in future operating periods.

For statement of cash flows, all cash in bank, including demand deposits, certificate of deposits and money market accounts are considered cash by the Corporation.

3. Cash:

The cash balances consist of the following:

	<u>2010</u>	<u>2009</u>
Operating accounts	\$10,048	\$57,918
Money market accounts	337,840	216,362
Certificate of deposits	269,046	265,662
	<u>\$616,934</u>	<u>\$539,942</u>

76TH STREET OWNERS' CORP.
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NOTES TO FINANCIAL STATEMENTS

4. Receivables from Shareholders:

At December 31, 2010 and 2009, receivables from shareholders amounted to \$104,266 and \$22,603, respectively. The Corporation has first lien upon the shares owned by shareholders for indebtedness arising under the provision of the proprietary lease issued to the shareholders. As a result, the Corporation believes that the fair market value of delinquent shares is sufficient to cover maintenance charges in arrears. Accordingly, no allowance for uncollectible maintenance charges is deemed necessary.

5. Prepaid expenses:

Prepaid expenses are comprised of the following:

	2010	2009
Real estate taxes	\$28,145	\$35,451
Insurance	13,200	13,331
	\$41,345	\$48,782

6. Property and Improvements:

Property and improvements are comprised of the following:

	2010	2009
Land	\$996,757	\$996,757
Building and improvements	6,432,422	6,401,970
	7,429,179	7,398,727
Less: accumulated depreciation	(4,981,120)	(4,763,804)
	\$2,448,059	\$2,634,923

7. Mortgage Note Payable:

On November 19, 2002, the Corporation refinanced its mortgage note payable with National Cooperative Bank for \$2,600,000 at an interest rate of 5.68% per annum. The mortgage note is secured by the land and building, and requires monthly principal and interest payments of \$15,188. The mortgage will mature on December 1, 2012 at which time the remaining balance will be due. At December 31, 2010 and 2009, mortgage note payable amounted to \$2,271,506 and \$2,321,380, respectively.

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NOTES TO FINANCIAL STATEMENTS

Principal maturities of the mortgage note payable at December 31, 2010 are as follows:

<u>Year</u>	
2011	\$52,774
2012	<u>2,218,732</u>
	<u>\$2,271,506</u>

8. Income Taxes:

The Corporation qualifies under Section 216 of the Internal Revenue Code as a cooperative housing corporation. This section permits shareholders to deduct their proportionate share of real estate taxes and mortgage interest on their own tax returns.

The Corporation is qualified to prepare its tax returns pursuant to the provisions of Subchapter T of the Internal Revenue Code. Subchapter T provides that expenses attributable to the generation of patronage income, i.e., income from business done with or for patrons (tenant cooperators), are deductible only to the extent of patronage income. The Corporation believes that all of its income is patronage income within the meaning of Subchapter T.

The Corporation has a net taxable income of \$149,155 and \$104,734 for the years ended December 31, 2010 and 2009 respectively. In 2010 and 2009, the Corporation utilized net operating loss carryforwards of \$149,155 and \$104,734, respectively. As a result, the Corporation is not subject to federal income tax. State and local franchise taxes are computed based on the capital method for cooperative housing corporations, which amounted to \$2,684 and \$5,220 in 2010 and 2009, respectively.

At December 31, 2010 and 2009, the Corporation has federal net operating loss carryforwards of \$797,854 and \$947,009, respectively, which are available to reduce future taxable income. Net operating loss carryforwards expire through the year 2025.

The net losses per financial statements reconciled to taxable income on federal income tax returns are as follows:

	<u>2010</u>	<u>2009</u>
Net income (loss) per financial statements	(\$39,632)	(\$83,069)
Financial depreciation in excess of tax depreciation	<u>188,787</u>	<u>187,803</u>
Taxable income before net operating loss deduction	<u>\$149,155</u>	<u>\$104,734</u>

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NOTES TO FINANCIAL STATEMENTS

9. Related Party Transactions:

Maxx Properties (Maxx), an affiliate of the Sponsor, Equity Investments, is the managing agent of the Corporation. The management fee was \$17,500 for the contract year ended November 30, 2010. The contract with Maxx has been renegotiated in 2010 for an additional two-year period with a fee of \$17,500 for a year, effective December 1, 2010. The Corporation incurred management fees of \$17,500 and \$17,000 for the years ended December 31, 2010 and 2009, respectively.

Maxx serves as the paymaster for the employees of the Corporation and is reimbursed for all payroll and related costs incurred on the Corporation's behalf. Employees of Maxx serve on the board of directors of the Corporation.

At December 31, 2010 and 2009, the sponsor owned approximately 16% of the outstanding shares of the Corporation. Maintenance charges to the sponsor amounted to \$142,828 in both 2010 and 2009. For year ended December 31, 2010, the sponsor also paid a special assessment of \$8,810.

10. Pension and Welfare Benefits:

The Corporation's employees are members of Local 32B-J of the Service Employees International Union, AFL-CIO. In 2010 and 2009, the Corporation incurred \$32,933 and \$33,109, respectively, for employee pension and welfare benefits to the union sponsored plans.

11. Future Major Repairs and Replacements:

The Corporation has not conducted a study to determine the remaining useful lives of the components of real property and current estimates of the costs of major repairs and replacements that may be required in the future. The board has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular maintenance, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

12. Special Assessments:

On February 9, 2010, the board of directors approved an assessment of 0.7147 per share to offset the tax abatements granted to certain shareholders by the City of New York. This assessment, amounting to \$53,399 was billed in March 2010 and has been recorded as income. During 2010, the Corporation on the other hand distributed an amount of \$54,812 as Co-op and STAR abatements to eligible shareholders.

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NOTES TO FINANCIAL STATEMENTS

13. Litigations:

In 2009, the Corporation initiated an action against a shareholder seeking to recover possession of the occupied apartment whose proprietary lease and tenancy was terminated by the Board of Directors. In June 2010, the Court awarded the Corporation a judgment of possession. Subsequently, in October 2010, the Court also awarded an amount of \$48,873 as recovery of maintenance charges and legal fees from the defendant. The defendant has appealed the Court rulings.

The shareholders had also filed multiple complaints of discrimination against the Corporation with the Department of Housing and Urban Development (HUD). HUD referred these complaints to New York State Department of Human Rights for determination. Upon receiving the notice, the Corporation tendered the claim for coverage, defense, and indemnification to its insurance carrier. The insurance carrier retained a legal counsel to represent the Corporation. One of the complaints was subsequently dismissed with no exposure to the Corporation. The Corporation believes that there is sufficient insurance to cover any potential loss.

14. Legal Fees Income:

The Corporation recorded as income an amount of \$78,044, being the legal fees charged back to shareholders in default against whom an action was initiated as described in Note 13 above. The Corporation believes that the value of the shares assigned to the respective apartment would be sufficient to recover such charges in case of non-payment by the litigating shareholder. Accordingly, no provision for uncollectible maintenance charges and legal fees is deemed necessary.

The Corporation had also included the same amount in legal fee expense.