

76TH STREET OWNERS' CORP.

**Financial Statements
as of December 31, 2011 and 2010
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, 2011 and 2010, 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, 2011 and 2010, 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.

Syed N. Haque, CPA

Rego Park, New York
May 9, 2012

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

BALANCE SHEETS
as of December 31, 2011 and 2010

ASSETS:	<u>2011</u>	<u>2010</u>
Cash (Note 3)	\$629,750	\$616,934
Receivables from shareholders (Note 4)	110,113	104,266
Prepaid expenses (Note 5)	38,128	41,345
Deferred mortgage refinancing costs, net of accumulated amortization of \$32,122 and \$28,599 (Note 2)	3,106	6,629
Property and improvements, net of accumulated depreciation of \$5,196,888 and \$4,981,120 (Notes 2 and 6)	2,272,291	2,448,059
Other	1,000	1,268
 Total assets	 <u><u>\$3,054,388</u></u>	 <u><u>\$3,218,501</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable and accrued expenses	\$104,027	\$88,371
Deferred maintenance charges	16,622	26,695
Due to shareholders	28,763	26,659
Due to sponsor	1,439	
Mortgage note payable (Note 7)	2,218,683	2,271,506
Other	1,500	6,575
 Total liabilities	 <u><u>2,371,034</u></u>	 <u><u>2,419,806</u></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	(4,747,284)	(4,631,943)
 Total stockholders' equity	 683,354	 798,695
 Total liabilities and stockholders' equity	 <u><u>\$3,054,388</u></u>	 <u><u>\$3,218,501</u></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, 2011 and 2010

	2011	2010
REVENUES:		
Maintenance charges (Note 2)	\$865,729	\$865,729
Rent income - storage bins	18,948	17,750
Interest income	5,809	8,041
Laundry income	10,200	9,600
Special assessments (Note 12)	101,561	53,399
Legal fees income (Note 14)	8,110	78,044
Sublet fee income	1,429	
Other income	1,474	1,616
Total revenues	1,013,260	1,034,179
EXPENSES:		
Payroll and related expenses	119,246	118,876
Real estate taxes	211,098	210,223
Interest expenses	129,169	132,133
Fuel	171,176	120,655
Gas and electric	24,198	24,661
Repairs, maintenance and supplies	72,268	49,067
Insurance	50,242	47,210
Professional fees	62,814	91,875
Water and sewer	41,858	34,468
Management fees (Note 9)	17,500	17,500
Income taxes (Note 8)	4,816	2,684
License and permits	556	589
Telephone	2,698	2,658
Other	1,583	372
Total expenses before depreciation and amortization	909,222	852,971
Excess of revenues over expenses before depreciation and amortization	104,038	181,208
Less: depreciation and amortization	(219,379)	(220,840)
Deficiency of revenues over expenses	(115,341)	(39,632)
Accumulated deficit at January 1, 2011 and 2010	(4,631,943)	(4,592,311)
Accumulated deficit at December 31, 2011 and 2010	(\$4,747,284)	(\$4,631,943)

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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, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	(\$115,341)	(\$39,632)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	219,379	220,840
Decrease (increase) in:		
Receivables from shareholders	(5,847)	(81,663)
Prepaid expenses	3,217	7,437
Other	268	(1,268)
Increase (decrease) in:		
Accounts payable and accrued expenses	15,656	33,896
Deferred maintenance charges	(10,073)	17,136
Due to shareholders	2,104	(667)
Due to sponsor	1,439	
Other	(5,075)	1,240
Net cash provided by operating activities	105,727	157,319
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in property and improvements	(40,088)	(30,453)
Net cash used in investing activities	(40,088)	(30,453)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in mortgage note payable	(52,823)	(49,874)
Net cash used in financing activities	(52,823)	(49,874)
Net increase in cash	12,816	76,992
Cash, beginning of year	616,934	539,942
Cash, end of year	\$629,750	\$616,934
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS:		
Interest paid	\$129,427	\$132,377
Income taxes paid	\$4,944	\$2,788

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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>2011</u>	<u>2010</u>
Operating accounts	\$140,290	\$10,048
Money market accounts	457,376	337,840
Certificate of deposits	32,084	269,046
	<u>\$629,750</u>	<u>\$616,934</u>

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NOTES TO FINANCIAL STATEMENTS

4. Receivables from Shareholders:

At December 31, 2011 and 2010, receivables from shareholders amounted to \$110,113 and \$104,266, 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:

	2011	2010
Real estate taxes	\$33,124	\$28,145
Insurance	5,004	13,200
	\$38,128	\$41,345

6. Property and Improvements:

Property and improvements are comprised of the following:

	2011	2010
Land	\$996,757	\$996,757
Building and improvements	6,472,422	6,432,422
	7,469,179	7,429,179
Less: accumulated depreciation	(5,196,888)	(4,981,120)
	\$2,272,291	\$2,448,059

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, 2011 and 2010, mortgage note payable amounted to \$2,218,683 and \$2,271,506, respectively.

Principal maturity of the mortgage note payable at December 31, 2011 is as follows:

<u>Year</u>	
2012	\$2,218,683

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NOTES TO FINANCIAL STATEMENTS

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 \$70,771 and \$149,155 for the years ended December 31, 2011 and 2010 respectively. In 2011 and 2010, the Corporation utilized net operating loss carryforwards of \$70,771 and \$149,155, 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 \$4,816 and \$2,684 in 2011 and 2010, respectively.

At December 31, 2011 and 2010, the Corporation has federal net operating loss carryforwards of \$727,083 and \$797,854, respectively, which are available to reduce future taxable income. Net operating loss carryforwards expire through the year 2031.

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

	<u>2011</u>	<u>2010</u>
Net loss per financial statements	(\$115,341)	(\$39,632)
Financial depreciation in excess of tax depreciation	<u>186,112</u>	<u>188,787</u>
Taxable income before net operating loss deduction	<u><u>\$70,771</u></u>	<u><u>\$149,155</u></u>

9. Related Party Transactions:

Maxx Properties (Maxx), an affiliate of the Sponsor, Equity Investments, is the managing agent of the Corporation. The management contract with Maxx was 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 for each of the years ended December 31, 2011 and 2010, respectively.

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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, 2011 and 2010, the sponsor owned approximately 16% of the outstanding shares of the Corporation. Maintenance charges to the sponsor amounted to \$142,828 in both 2011 and 2010. For year ended December 31, 2011, the sponsor also paid a special assessment of \$16,757.

10. Pension and Welfare Benefits:

The Corporation's employees are members of Local 32B-J of the Service Employees International Union, AFL-CIO. In 2011 and 2010, the Corporation incurred \$30,202 and \$32,933, 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 April 18, 2011, the board of directors approved an assessment of \$0.68475 per share to offset the tax abatements granted to certain shareholders by the City of New York. This assessment, amounting to \$51,161, was billed in May 2011 and has been recorded as income. During 2011, the Corporation on the other hand distributed an amount of \$53,434 as CO-OP and STAR abatements to eligible shareholders.

On June 13, 2011, the board of directors approved another assessment of \$0.3373 per share to cover the rising fuel costs. Both assessments amounted to \$101,561 in aggregate. The fuel costs in 2011 and 2010 were \$171,176 and \$120,655, respectively.

In 2010, the board of directors had also approved an assessment of \$0.7147 per share to offset the tax abatements granted to shareholders. This assessment amounted to \$53,399 and was billed in March 2010. During 2010, the Corporation had 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. The defendant is also indebted to the Corporation for arrears of maintenance, use and occupancy, additional rent and attorney's fees. Subsequently, a warrant of eviction was issued on November 18, 2010. The warrant was later executed by the Marshall of City of New York and the shareholder was evicted from the subject apartment. The Corporation now has legal possession of the apartment. On May 7, 2012, the Corporation signed a contract to sell such apartment for \$315,000. As of December 31, 2011, the receivable from the shareholder amounted to \$100,876.

The same shareholder and his spouse had also filed couple of claims for discrimination, against the Corporation with the Department of Housing and Urban Development (HUD). HUD referred these complaints to New York State Division 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. Both these claims were dismissed by the Division of Human Rights on February 26, 2011 and on May 27, 2011 respectively. Furthermore, the statutory time to file petitions to the Supreme Court of New York expired on April 26, 2011 and July 27, 2011 respectively; therefore these cases are now considered closed with no exposure to the Corporation.

14. Legal Fees Income:

For the years ended December 31, 2011 and 2010, the Corporation recorded as income an amount of \$8,110 and \$78,044 respectively, being the legal fees charged back to the shareholder in default against whom an action was initiated and who was evicted from the subject apartment as described in Note 13 above.