

76TH STREET OWNERS' CORP.

**Financial Statements
as of December 31, 2016 and 2015
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 financial statements of 76th Street Owners' Corp. (the "Corporation"), which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of revenues, expenses and accumulated deficit, and cash flows for the years 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 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 76th Street Owners' Corp. as of December 31, 2016 and 2015, 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.

Other Matter

As discussed in Note 12, the Corporation has not estimated the remaining useful 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.

Sydney N. Heague, CPA

Rego Park, New York
June 12, 2017

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

BALANCE SHEETS
as of December 31, 2016 and 2015

ASSETS:	<u>2016</u>	<u>2015</u>
Cash (Note 3)	\$1,158,837	\$1,018,790
Receivables from shareholders (Note 4)	14,309	10,432
Prepaid expenses (Note 5)	15,358	54,398
Property and improvements, net of accumulated depreciation of \$6,410,965 and \$6,158,515 (Notes 2 and 6)	2,212,784	2,282,053
Total assets	<u><u>\$3,401,288</u></u>	<u><u>\$3,365,673</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable and accrued expenses	\$130,245	\$68,458
Deferred maintenance charges	27,628	20,271
Due to shareholders	17,267	23,406
Due to sponsor	8,603	10,212
Security deposits payable	7,499	7,501
Mortgage note payable (Note 7)	3,154,364	3,146,311
Total liabilities	<u><u>3,345,606</u></u>	<u><u>3,276,159</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	5,410,493	5,410,493
Accumulated deficit	<u><u>(5,429,526)</u></u>	<u><u>(5,395,694)</u></u>
Total stockholders' equity	55,682	89,514
Total liabilities and stockholders' equity	<u><u>\$3,401,288</u></u>	<u><u>\$3,365,673</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, 2016 and 2015

	2016	2015
REVENUES:		
Maintenance charges (Note 2)	\$865,696	\$865,696
Special assessments (Note 13)	66,496	61,266
Rent income - storage bins	22,789	23,698
Interest income	3,796	2,372
Laundry income	16,200	18,750
Sublet fees	1,451	1,617
Other income	3,835	3,955
Total revenues	980,263	977,354
EXPENSES:		
Payroll and related expense	114,399	112,806
Union pension and benefits	29,685	32,775
Real estate taxes	185,867	217,837
Interest expenses	130,133	129,778
Fuel, gas and electric	95,214	151,229
Repairs, maintenance and supplies (Note 14)	58,616	88,712
Insurance	47,007	46,193
Professional fees	10,260	6,561
Water and sewer	50,533	57,753
Management fees (Note 10)	19,333	18,833
Income taxes (Note 9)	716	4,726
License and permits	4,283	208
Telephone	7,293	6,490
Other	253	3,589
Total expenses before depreciation and amortization	753,592	877,490
Excess of revenues over expenses before depreciation and amortization	226,671	99,864
Less: depreciation and amortization	(260,503)	(256,923)
Deficiency of revenues over expenses	(33,832)	(157,059)
Accumulated deficit at January 1, 2016 and 2015	(5,395,694)	(5,238,635)
Accumulated deficit at December 31, 2016 and 2015	(\$5,429,526)	(\$5,395,694)

The accompanying notes are an integral
part of these financial statements

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

STATEMENTS OF CASH FLOWS
for the years ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	(\$33,832)	(\$157,059)
Adjustments to reconcile deficiency of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	260,503	256,923
(Increase) decrease in:		
Receivables from shareholders	(3,877)	12,366
Prepaid expenses	39,040	3,080
(Decrease) increase in:		
Accounts payable and accrued expenses	61,787	1,982
Deferred maintenance charges	7,357	6,793
Due to shareholders	(6,139)	3,443
Due to sponsor	(1,609)	(3,855)
Security deposits payable	(2)	1,000
Net cash provided by operating activities	323,228	124,673
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in property and improvements	(183,181)	(63,512)
Net cash used in investing activities	(183,181)	(63,512)
Net increase in cash	140,047	61,161
Cash, beginning of year	1,018,790	957,629
Cash, end of year	\$1,158,837	\$1,018,790
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS:		
Interest paid	\$130,133	\$129,778
Income taxes paid	\$1,326	\$2,830

The accompanying notes are an integral
part of these financial statements

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 113 residential units, and a superintendent apartment.

2. Summary of Significant Accounting Policies:

Use of 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.

Property and Equipment:

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

Debt Issuance Costs:

Debt issuance costs are amortized on the straight-line method over the terms of the loans. Amortization on the interest method would not be materially different.

Maintenance Charges:

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

Cash and Cash Equivalents:

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.

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

NOTES TO FINANCIAL STATEMENTS

3. Cash:

The cash balances consist of the following:

	2016	2015
Operating accounts	\$160,762	\$133,466
Money market accounts	998,075	885,324
	\$1,158,837	\$1,018,790

4. Receivables from Shareholders:

At December 31, 2016 and 2015, receivables from shareholders amounted to \$14,309 and \$10,432, 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:

	2016	2015
Real estate taxes		\$40,627
Boiler service contract	\$2,008	1,572
Insurance	13,350	12,199
	\$15,358	\$54,398

6. Property and Improvements:

Property and improvements are comprised of the following:

	2016	2015
Land	\$996,757	\$996,757
Building and improvements	7,626,992	7,443,811
	8,623,749	8,440,568
Less: accumulated depreciation	(6,410,965)	(6,158,515)
	\$2,212,784	\$2,282,053

For the years ended December 31, 2016 and 2015, the Corporation incurred \$183,181 and \$63,512 for capital improvements, respectively. Such costs are included in building and improvements.

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

NOTES TO FINANCIAL STATEMENTS

7. Mortgage Note Payable:

On September 4, 2012, the Corporation refinanced its mortgage note payable with Valley National Bank for \$3,200,000 at an interest rate of 4% per annum. The mortgage note is secured by the land and building, and requires monthly interest only payment of approximately \$10,667. The mortgage will mature on September 30, 2022 at which time the remaining balance will be due.

At December 31, 2016 and 2015, the mortgage note payable and unamortized debt issuance costs were as follows:

	2016	2015
Mortgage note payable	\$3,200,000	\$3,200,000
Less: unamortized debt issuance costs	(45,636)	(53,689)
Net mortgage note payable	\$3,154,364	\$3,146,311

8. Debt Issuance Costs:

Effective January 1, 2016, the Corporation adopted Accounting Standards Update (ASU) 2015-03 (Subtopic 835-30) which requires debt issuance costs to be presented on the balance sheet as a direct reduction of the carrying amount of the related debt liability. The December 31, 2015, balance sheet has been restated to reclassify debt issuance costs from assets to a direct reduction of debt liability. As of December 31, 2016 and 2015, unamortized debt issuance costs amounted to \$45,636 and \$53,689, respectively, as reported in Note 7 above.

9. 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.

For the years ended December 31, 2016 and 2015, the Corporation has a net taxable income of \$153,074 and \$28,777, respectively, which has been offset by utilizing the net operating loss carryforwards. As a result, the Corporation is not subject to federal income tax in 2016 and 2015. State and local franchise taxes are computed based on the capital method for

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

NOTES TO FINANCIAL STATEMENTS

cooperative housing corporations, which amounted to \$716 and \$4,726 in 2016 and 2015, respectively.

At December 31, 2016 and 2015, the Corporation has federal net operating loss carryforwards of \$442,497 and \$595,571, respectively, which are available to reduce future taxable income. Net operating loss carryforwards expire through the year 2036.

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

	2016	2015
Net loss per financial statements	(\$33,832)	(\$157,059)
Financial depreciation in excess of tax depreciation	186,906	185,836
Taxable income before net operating loss deduction	<u>\$153,074</u>	<u>\$28,777</u>

The Corporation's tax filings are subject to audit by various taxing authorities. The Corporation's federal, state and city income tax returns for years ended December 31, 2012 through 2016 remain open to examination by various taxing authorities. In evaluating the Corporation's tax provisions and accruals, the Corporation believes that its estimates are appropriate based on current facts and circumstances.

10. Related Party Transactions:

Maxx Properties (Maxx), an affiliate of the Sponsor, Equity Investments, is the managing agent of the Corporation. The Corporation incurred management fees of \$19,333 and \$18,833 for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the sponsor owned approximately 12% of the outstanding shares of the Corporation. Maintenance charges to the sponsor amounted to \$99,819 in 2016 as well as 2015. For years ended December 31, 2016 and 2015, the sponsor also paid a special assessment of \$7,667 and \$7,064, respectively.

11. Multi-employer Pension Plan:

The Corporation contributes to a multi-employer defined benefit pension plan under the terms of a collective bargaining agreement that covers its union represented employees. The risks of participating in a multi-employer plan differ from those of a single employer plan in the following respects: (1) assets contributed to the multi-employer plan by one employer

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

NOTES TO FINANCIAL STATEMENTS

may be used to provide benefits to employees of other participating employers; (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (3) if the Corporation chooses to stop participating in the multi-employer plan, the Corporation may be required to pay the plan an amount based on the unfunded status of the plan, which is referred to as the withdrawal liability.

The Corporation's participation in plan is outlined in the table below:

Pension Plan	Employer Identification number	Pension Plan number	PPA Zone	FIP/RP Status	Surcharge Imposed	Expiration date
			Plan Years			Collective Bargaining Agreement
			1/1/15 to 12/31/15			
			1/1/16 to 12/31/16	Implemented		
Building Service						
32BJ Fund	13-3308218	001	Red	Implemented	None	4/20/2018

The Corporation's pension contributions for the year ended December 31, 2016 and 2015 was \$7,671 and \$5,327, respectively. The Corporation has not contributed more than 5% of the total contribution to the plan.

12. 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.

13. Special Assessments:

In 2016 and 2015, the board of directors approved special assessments to offset the tax abatements granted to certain shareholders by the City of New York in the amount of \$66,496 and \$61,266, respectively. Such assessments have been recorded as income. During 2016 and 2015, the Corporation on the other hand distributed \$72,911 and \$64,756, respectively, as Coop and STAR abatements to eligible shareholders.

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

NOTES TO FINANCIAL STATEMENTS

14. Repair, Maintenance and Supplies:

For the years ended December 31, 2016 and 2015, repair, maintenance and supplies comprised of the following:

	2016	2015
Boiler and plumbing	\$15,933	\$27,379
Supplies	11,080	9,714
General repairs and maintenance	12,109	7,722
Exterminator	3,692	6,972
Elevator	15,171	23,796
Landscaping	631	13,129
	<u>\$58,616</u>	<u>\$88,712</u>

15. Impairment:

In accordance with FASB ASC 360, long-lived assets, including property and equipment, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying amount may not be recoverable through future discounted cash flows. The amount of the impairment loss is the excess of the carrying amount of the impaired assets over the fair value of the assets based upon discounted future cash flows. The management believes that there has not been any impairment in 2016 and 2015.

16. Concentration of Credit Risk:

The Corporation maintains accounts with financial institutions. At times, cash balances may exceed the maximum coverage provided by the Federal Deposit Insurance Corporation ("FDIC") on insured depositor accounts. The Corporation believes it mitigates risk by investing its cash and cash equivalents with major financial institutions. As of December 31, 2016 and 2015, the uninsured cash balances amounted to \$378,439 and \$239,100, respectively.

17. Date of Management's Review:

Management has evaluated subsequent events through June 12, 2017, the date on which the financial statements were available to be issued. As of June 12, 2017, there are no subsequent events to be recognized or reported.

18. Reclassifications:

Certain 2015 balances have been restated to conform to 2016 presentation.