

76th Street Owners' Corp.

**Financial Statements
as of December 31, 2018 and 2017
and for the years then ended**



Syed N. Haque, CPA & Associates, P.C.
Certified Public Accountants



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, 2018 and 2017, 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, 2018 and 2017, 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 16, 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.

Syed N. Haque, CPA & Associates, P.C.

Rego Park, New York

April 29, 2019

76th Street Owners' Corp.
(A Cooperative Housing Corporation)

Balance Sheets
as of December 31, 2018 and 2017

ASSETS:	<u>2018</u>	<u>2017</u>
Cash (Note 3)	\$933,469	\$1,078,907
Receivables from shareholders (Note 4)	97,512	10,181
Prepaid expenses (Note 5)	62,745	49,847
Property and equipment, net of accumulated depreciation of \$6,942,271 and \$6,677,822 (Notes 2 and 6)	2,341,166	1,972,235
Total assets	<u>\$3,434,892</u>	<u>\$3,111,170</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Accounts payable and accrued expenses	\$463,453	\$151,293
Deferred maintenance charges	17,446	19,173
Abatements due to shareholders	22,364	24,013
Due to sponsor	4,865	7,776
Security deposits payable	5,999	6,499
Mortgage note payable (Note 7)	3,170,470	3,162,417
Total liabilities	<u>3,684,597</u>	<u>3,371,171</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	(5,734,913)	(5,745,209)
Total stockholders' equity	<u>(249,705)</u>	<u>(260,001)</u>
Total liabilities and stockholders' equity	<u>\$3,434,892</u>	<u>\$3,111,170</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, 2018 and 2017

REVENUES:	2018	2017
Maintenance charges (Note 2)	\$865,696	\$865,696
Special assessments (Note 13)	274,204	51,956
Rent income - storage bins	22,063	24,075
Sublet fees	-	1,050
Laundry income	3,950	16,200
Interest income	9,601	6,114
Other	3,223	4,164
	<u>1,178,737</u>	<u>969,255</u>
EXPENSES:		
Payroll and related expenses	121,647	121,684
Union pension and benefits	50,595	45,776
Real estate taxes	265,710	227,613
Interest expenses	137,833	137,832
Fuel, gas and electric	85,220	90,550
Repairs, maintenance and supplies (Note 9)	100,257	96,458
Insurance	47,279	44,769
Professional fees	11,330	6,795
Water and sewer	54,928	53,687
Management fees (Note 10)	19,500	19,500
Income taxes (Note 12)	1,519	9,972
Permits and fees	379	743
Telephone	7,174	7,038
Other	871	1,211
	<u>904,242</u>	<u>863,628</u>
Excess of revenues over expenses		
before depreciation and interior painting	274,495	105,627
Less: depreciation	(264,449)	(266,857)
interior painting	(9,000)	(154,453)
	<u>1,046</u>	<u>(315,683)</u>
Excess (deficiency) of revenues over expenses	1,046	(315,683)
Accumulated deficit as previously reported at January 1, 2018 and 2017	(5,745,209)	(5,429,526)
Prior period adjustment (Note 15)	9,250	-
Accumulated deficit at December 31, 2018 and 2017	<u>(\$5,734,913)</u>	<u>(\$5,745,209)</u>

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part of these financial statements

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Statements of Cash Flows
for the years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	\$1,046	(\$315,683)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by (used in) operating activities:		
Depreciation	264,449	266,857
Amortization of debt issuance costs	8,053	8,053
Prior period adjustments	9,250	
(Increase) decrease in:		
Receivables from shareholders	(87,331)	4,128
Prepaid expenses	(12,898)	(34,489)
Increase (decrease) in:		
Accounts payable and accrued expenses	312,160	21,048
Deferred maintenance charges	(1,727)	(8,455)
Security deposits payable	(500)	(1,000)
Abatement due to shareholders	(1,649)	6,746
Due to sponsor	(2,911)	(827)
Net cash provided by (used in) operating activities	487,942	(53,622)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in property and equipment	(633,380)	(26,308)
Net cash used in investing activities	(633,380)	(26,308)
Net decrease in cash	(145,438)	(79,930)
Cash, beginning of year	1,078,907	1,158,837
Cash, end of year	\$933,469	\$1,078,907
SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS:		
Interest paid	\$129,779	\$129,779
Income taxes paid	\$2,824	\$9,526

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**76th Street Owners' Corp.
(A Cooperative Housing Corporation)**

**Notes to Financial Statements
as of December 31, 2018 and 2017**

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 term of the loan. 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.

3. Cash:

At December 31, 2018 and 2017, the cash balances consist of the following:

	2018	2017
Operating accounts	\$32,191	\$80,923
Interest bearing accounts	901,278	997,984
	<u>\$933,469</u>	<u>\$1,078,907</u>

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(A Cooperative Housing Corporation)

Notes to Financial Statements
as of December 31, 2018 and 2017

4. Receivables from Shareholders:

At December 31, 2018 and 2017, receivables from shareholders amounted to \$97,512 and \$10,181, 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:

At December 31, 2018 and 2017, prepaid expenses are comprised of the following:

	2018	2017
Real estate taxes	\$46,806	\$34,347
Boiler service contract	2,029	2,029
Insurance	13,910	13,471
	\$62,745	\$49,847

6. Property and Equipment:

At December 31, 2018 and 2017, property and equipment are comprised of the followings:

	2018	2017
Land	\$996,757	\$996,757
Building and improvements	8,286,680	7,653,300
	9,283,437	8,650,057
Less: accumulated depreciation	(6,942,271)	(6,677,822)
	\$2,341,166	\$1,972,235

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 entire amount will be due.

At December 31, 2018 and 2017, the mortgage note payable and unamortized debt issuance costs are as follows:

	2018	2017
Mortgage note payable	\$3,200,000	\$3,200,000
Less: unamortized debt issuance costs	(29,530)	(37,583)
Net mortgage note payable	\$3,170,470	\$3,162,417

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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. As of December 31, 2018 and 2017, unamortized debt issuance costs amounted to \$29,530 and \$37,583, respectively, as reported in Note 7 above.

9. Repair, Maintenance and Supplies:

At December 31, 2018 and 2017, repairs, maintenance and supplies comprised of the following:

	<u>2018</u>	<u>2017</u>
Boiler and plumbing	\$25,539	\$28,796
Hardware and supplies	11,600	13,949
General repair and maintenance	19,843	13,688
Exterminating	3,703	3,757
Elevator	18,275	14,365
Landscaping	21,297	21,903
	<u>\$100,257</u>	<u>\$96,458</u>

10. Related Party Transactions:

Maxx Management Corp. (Maxx), an affiliate of the Sponsor, Equity Investments, is the managing agent of the Corporation. The Corporation incurred management fees of \$19,500 for both of the years ended December 31, 2018 and 2017.

Maxx also 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, 2018 and 2017, the sponsor owned approximately 9.6% and 10.7% of the outstanding shares of the Corporation. Maintenance charges to the sponsor amounted to \$82,995 and \$92,288 in 2018 and 2017, respectively. For the years ended December 31, 2018 and 2017, the sponsor also paid a special assessment of \$26,288 and \$5,539, 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 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

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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 Implemented	Surcharge Imposed	Expiration date
			Plan Years 1/1/17 to 12/31/17 1/1/18 to 12/31/18			Collective Bargaining Agreement
Building Service 32BJ Fund	13-3289511	001	Red	Implemented	None	4/20/2018

The Corporation's pension contributions for the years ended December 31, 2018 and 2017 were \$11,478 and \$9,271, respectively. The Corporation has not contributed more than 5% of the total contribution to the plan.

12. 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 year ended December 31, 2018, the Corporation earned a net taxable income of \$162,015, which has been offset by utilizing the net taxable loss carryforwards. In 2017, Corporation incurred a net taxable loss of \$125,303. As a result, the Corporation is not subject to federal income tax in 2018 and 2017. State and local franchise taxes are computed based on the capital method for cooperative housing corporations, which amounted to \$1,519 and \$9,972 in 2018 and 2017, respectively.

At December 31, 2018 and 2017, the Corporation has federal net operating loss carryforwards of \$405,785 and \$567,800, respectively, which are available to reduce future taxable income. Net operating loss carryforwards expire through the year 2038.

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

	2018	2017
Net income (losses) per financial statements	\$1,046	(\$315,683)
Financial statements depreciation		
in excess of tax depreciation	160,969	190,380
Taxable income (loss)	<u>\$162,015</u>	<u>(\$125,303)</u>

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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, 2015 through 2018 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.

13. Special Assessments:

In 2018 and 2017, the Board of Directors approved special assessments for capital improvements equal to the tax abatement amount of \$73,972 and \$51,956, respectively.

In 2018, the board of directors also approved an assessment for roof and elevator repair of \$200,232. The amount was paid over one month.

For the years ended December 31, 2018 and 2017, assessment income amounted to \$274,204 and \$51,956, respectively.

14. Real Estate Tax Abatements:

The New York City grants real estate tax abatements to certain shareholders of the Corporation under its Coop and STAR abatements program. The abatements are provided by means of credits to the Corporation's real estate taxes and the Corporation in turn passes on the abatements to the eligible shareholders. During 2018 and 2017, the Corporation on the other hand distributed \$77,573 and \$60,156, respectively, as Coop and STAR abatements to eligible shareholders.

15. Prior period adjustment:

Accumulated deficit at January 1, 2018 has been restated from amount previously reported to reflect an overstatement of laundry income of \$9,250. The financial statements for the year 2017 have not been restated.

16. 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.

17. 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 that it mitigates risk by

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investing its cash and cash equivalents with major financial institutions. As of December 31, 2018 and 2017, the uninsured cash balances amounted to \$178,658 and \$304,868, respectively.

18. 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 2018 and 2017.

19. Date of Management's Review:

Management has evaluated subsequent events through April 29, 2019, the date on which the financial statements were available to be issued. As of April 29, 2019, there are no subsequent events to be recognized or reported except that the Board of Directors approved an assessment of \$1.03 per share effective from March 2019.

20. Reclassifications:

Certain 2017 balances have been restated to conform to 2018 presentation.