

345 EAST 61<sup>ST</sup> STREET HOUSING CORP.

Financial Statements  
as of January 31, 2010  
and for the year then ended

Cesarano & Khan, PC  
Certified Public Accountants



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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of  
345 East 61st Street Housing Corp.:

We have audited the accompanying balance sheet of 345 East 61st Street Housing Corp. (the "Corporation") as of January 31, 2010, and the related statements of operations, stockholders' equity and cash flows for the year 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 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 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 audit provides 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 345 East 61st Street Housing Corp. as of January 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the Corporation has not estimated the remaining lives and replacement costs of the common 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 part of, the basic financial statements.

*Cesarano & Khan, CPAs PC*

Floral Park, New York  
September 23, 2010

345 EAST 61ST STREET HOUSING CORP.

(A Cooperative Housing Corporation)

BALANCE SHEET

January 31, 2010

ASSETS

Cash and cash equivalents	\$ 4,627
Maintenance and other receivables	2,323
Mortgage escrow	5,076
Prepaid expenses	13,471
Property and equipment, net of accumulated depreciation of \$574,765	615,604
Mortgage costs, net of accumulated amortization of \$10,398	7,948
Total assets	<u>\$ 649,049</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts payable and accrued expenses	\$ 11,523
Maintenance charges received in advance	4,048
Tax abatement and exemptions payable	26,834
Income taxes payable	1,075
Mortgage note payable	390,831
Total liabilities	<u>434,311</u>
Stockholders' equity:	
Common stock, par value \$1.00; authorized 200 shares; issued and outstanding 164 shares	164
Additional paid-in capital	921,920
Accumulated deficit	(707,346)
Total stockholders' equity	<u>214,738</u>
Total liabilities and stockholders' equity	<u>\$ 649,049</u>

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

345 EAST 61ST STREET HOUSING CORP.

(A Cooperative Housing Corporation)

STATEMENT OF OPERATIONS

for the year ended January 31, 2010

REVENUES:

Maintenance charges	\$ 144,530
Less: tax abatement and exemptions	(11,896)
Less: mortgage amortization	(6,930)
Special assessment	11,612
Sublet fees	2,250
Laundry	720
Interest	153
Usage fee	3,500
Other	1,007
Total revenues	<u>144,946</u>

EXPENSES:

Real estate taxes, net of abatements	61,270
Interest	23,487
Utilities	17,506
Water and sewer	5,186
Repairs, maintenance and supplies	12,303
Insurance	7,834
Professional fees	4,743
Management fees	13,800
Administrative expenses	1,066
State and local franchise taxes	1,075
Total expenses before depreciation	<u>148,270</u>

Deficiency of revenues over expenses before depreciation and amortization	(3,324)
Depreciation and amortization	<u>(24,297)</u>
Deficiency of revenues over expenses	<u>\$ (27,621)</u>

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

345 EAST 61ST STREET HOUSING CORP.

(A Cooperative Housing Corporation)

STATEMENT OF STOCKHOLDERS' EQUITY

for the year ending January 31, 2010

	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders' Equity</u>
Balance at January 31, 2009	\$ 164	\$ 914,990	\$ (679,725)	\$ 235,429
Maintenance applicable to mortgage amortization	-0-	6,930	-0-	6,930
Deficiency of revenues over expenses	-0-	-0-	(27,621)	(27,621)
Balance at January 31, 2010	<u>\$ 164</u>	<u>\$ 921,920</u>	<u>\$ (707,346)</u>	<u>\$ 214,738</u>

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

345 EAST 61ST STREET HOUSING CORP.

(A Cooperative Housing Corporation)

STATEMENT OF CASH FLOWS

for the year ended January 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:

Deficiency of revenues over expenses \$ (27,621)

Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities:

Depreciation and amortization	24,297
Changes in operating assets and liabilities:	
Maintenance and other receivables	(1,545)
Mortgage escrow	(1,131)
Prepaid expenses	(989)
Accounts payable and accrued expenses	(6,359)
Maintenance charges received in advance	(139)
Tax abatement and exemptions payable	1,273
Income taxes payable	146
Net cash used in operating activities	<u>(12,068)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Mortgage principal payments	(6,930)
Maintenance payments applicable to mortgage principal payments	6,930
Net cash provided by financing activities	<u>-0-</u>
Net decrease in cash	(12,068)

Cash, beginning of year	16,695
Cash, end of year	<u>\$ 4,627</u>

SUPPLEMENTARY INFORMATION:

Interest paid	\$ 23,522
Income taxes paid	\$ 828

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

345 East 61<sup>st</sup> Street Housing Corp.

(A Cooperative Housing Corporation)

NOTES to FINANCIAL STATEMENTS

January 31, 2010

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1. Organization:

345 East 61<sup>st</sup> Street Housing Corp. (the "Corporation"), was incorporated in the State of New York on February 25, 1981, as a cooperative housing corporation. The Corporation owns the building located at 345 East 61<sup>st</sup> Street, New York, New York, consisting of 15 residential apartments.

A Board of Directors, elected by the shareholders, governs the affairs of the Corporation. Directors, as such, receive no compensation for their services. The Board of Directors retains a management agent, to provide on-site property management as well as certain administrative and bookkeeping services.

2. Date of Management Review:

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through September 23, 2010, the date the financial statements were available to be issued.

3. Summary of Significant Accounting Policies:

Pervasiveness 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

The Corporation considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Property and Equipment:

Property and equipment acquired by the Corporation are recorded at cost. Capitalized amounts include expenditures, which materially extend the useful lives of existing assets. Expenditures for repairs and maintenance, which do not materially extend the useful lives of the related asset, are charged to expense as incurred. Depreciation is computed on the straight-line method over the estimated useful lives of individual assets.

Mortgage Costs:

Mortgage 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.

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## NOTES to FINANCIAL STATEMENTS, Continued

January 31, 2010

4. Property and Equipment:

The components of property and equipment were as follows:

Land	\$219,000
Building	876,000
Building improvements	95,369
	<u>1,190,369</u>
Less: accumulated depreciation	(574,765)
	<u><u>\$615,604</u></u>

5. Mortgage Note Payable:

On April 28, 2004, the Corporation entered into a mortgage note payable, secured by the land and building, to National Consumer Cooperative Bank ("NCB"). The mortgage, in the initial principal amount of \$425,000, bears interest at the rate of 5.88% per annum. The mortgage is for a ten-year term, maturing on April 30, 2014. The mortgage provides for monthly payments of \$2,515, which includes principal payments based upon a thirty-year amortization schedule.

No prepayment is permitted during the first one hundred two months of the loan term. Prepayment is permitted in full upon at least thirty and not more than ninety days prior notice to NCB, with the payment of a prepayment penalty of 2% of the principal amount. For the ninety day period preceding maturity, prepayment is permitted without penalty.

The aggregate amount of required principal payments were as follows:

2011	\$7,354
2012	7,804
2013	8,219
2014	367,454
	<u><u>\$390,831</u></u>

6. Income Taxes:

Pursuant to a 1996 United States Tax Court decision, the Corporation prepares its tax returns under the provisions of Subchapter T of the Internal Revenue Code. Subchapter T requires the allocation of patronage and non-patronage source income. In addition, 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. Additionally, the Corporation treats special assessments used for the acquisition of capital improvements and maintenance charges used for amortization of mortgage principal as contributions to capital. The Corporation also qualified under Section 216 of the Internal Revenue Code. This section permits tenant-shareholders to deduct, on their own tax returns, their proportionate share of real estate taxes and mortgage interest that is deductible by the Corporation.

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345 East 61<sup>st</sup> Street Housing Corp.

(A Cooperative Housing Corporation)

NOTES to FINANCIAL STATEMENTS, Continued

January 31, 2010

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The Corporation had net operating loss for the current year, and as a result was not subject to federal income tax. In addition, the Corporation had net operating loss carryforward credits of approximately \$466,283, which expire, if not utilized, between 2011 and 2030. The Corporation believes it will not derive a future tax benefit in connection with the loss carryforwards, and as a result did not recognize a deferred tax asset. The Corporation was however subject to certain state and local minimum franchise taxes based upon the Corporation's capital base. The rate of tax is .04% for each taxing authority.

7. Future Major Repairs and Replacements:

The Corporation has not conducted a study to determine the remaining useful lives of the components of the property and estimates of the costs of major repairs and replacements that may be required in the future. When replacement funds are required 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.

8. Holder of Unsold Shares:

At January 31, 2010, ALH Properties Two, Inc., the holder of unsold shares, owned 25 shares of the Corporation, which is approximately 15% of the outstanding shares.

9. Special Assessment:

On February 1, 2009, the Corporation implemented a special assessment of approximately \$70.80 per share to fund operating expenses.