

EAST RIVER HOUSING CORPORATION



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February 21, 2013

Enclosed please find the audited financial statement for the year ending June 30, 2012 showing a deficit prior to depreciation, amortization and interest prepayment penalty of \$867,705. East River Housing Corporation's Board of Directors and management recognized that a longer term solution was needed and began looking at ways to significantly cut long-term costs. Given the steep rise in oil prices, an analysis was done to determine the potential benefit of energy alternatives. Natural gas was determined to be a cost efficient replacement for oil but that would require a steep upfront investment. Based upon an analysis which showed a payback period of less than three years, the East River Board approved a multimillion dollar investment to transition our boiler plant from oil to natural gas. This project was completed in May 2012. Comparing the first six months of the Fiscal years June 2012 to June 2013 our actual savings was \$1.1 million. East River funded this project by refinancing the master mortgage on the cooperative for approximately \$10 million more than the previous mortgage.

The resale fee (aka flip tax) percentage for cooperative apartments is dependent on whether the sale is a first-time sale or a second/subsequent sale. The Corporation reconstituted in 1996 as a private cooperative. The resale fee percentage for the first sale after reconstitution for each apartment unit is 20%; the resale fee percentage for the second/subsequent sales after reconstitution for each apartment is 5%. For the six months period ended December 31, 2012 the flip tax revenue was \$2.7 million, compared to six months period ended December 31, 2011 where the flip tax revenue was \$1.3 million.


Real estate taxes for the first six months of fiscal year ended June 2013 has increased from \$2.5 million to \$3.1 million. A certiorari application has been filed to reduce the assessed value.

SIX MONTH ENDED			
	December 2012	December 2011	Difference
FLIP TAX REVENUE	(\$2.7 million)	(\$1.3 million)	(\$1.4 million)
FUEL	(\$0.5 million)	\$1.6 million	(\$1.1 million)
REAL ESTATE TAXES	\$3.1 million	\$2.5 million	\$0.6 million
	\$0.9 million	\$2.8 million	(\$1.9 million)

Overall all other expenses and income have not increased or decreased significantly.

Based upon the above, our financial position has improved from the prior year and we project that the June 30, 2013 financial statement should result in a surplus.

Yours Truly,


Harold Jacob
General Manager
East River Housing Corporation

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

**Financial Statements
and Supplemental Information
Years Ended June 30, 2012 and 2011
(Together with Independent Auditors' Report)**



**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

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June 30, 2012 and 2011

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Independent Auditors' Report

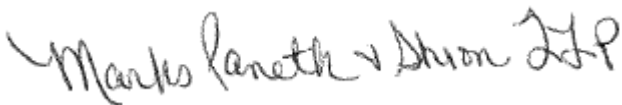
To the Tenant-Stockholders
East River Housing Corporation
New York, N.Y.

We have audited the accompanying Balance Sheets of East River Housing Corporation (the "Cooperative") as of June 30, 2012 and 2011, and the related Statements of Revenues and Expenses and Accumulated Deficit, and Cash Flows for the years then ended. These financial statements are the responsibility of the Cooperative'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 East River Housing Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management 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 accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required to be disclosed by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.



New York, New York
December 17, 2012

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Balance Sheets

June 30, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 7,194,467	\$ 2,407,432
Receivables:		
Tenant-stockholders	190,236	228,625
Commercial tenants	100,791	120,634
Due from Amalgamated Dwellings, Inc	649,729	-
Due from Hillman Housing Corporation	-	574
Total receivables	<u>940,756</u>	<u>349,833</u>
Prepaid expenses and other assets, net	1,537,625	1,215,876
Security deposits - vendors	204,712	32,500
Security deposits - commercial tenants	167,603	167,603
Real and personal property, net	<u>19,140,708</u>	<u>15,636,699</u>
TOTAL ASSETS	<u>\$ 29,185,871</u>	<u>\$ 19,809,943</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Accounts payable and accrued expenses	\$ 2,288,778	\$ 2,174,491
Insurance premium financing	576,916	-
Retainage payable - Local Law 11 work and boiler room conversion	371,814	-
Due to Hillman Housing Corporation	80,421	-
Due to tenant-stockholders - abatements	124,512	148,766
Rents received in advance	52,651	94,340
Security deposits payable - commercial tenants	167,603	167,603
Mortgage and loans payable	<u>25,000,000</u>	<u>14,900,324</u>
Total Liabilities	<u>28,662,695</u>	<u>17,485,524</u>
Commitment and Contingencies		
Stockholders' Equity		
Common stock - \$100 par value, authorized 50,000 shares, 45,659.375 shares issued and outstanding	4,565,938	4,565,938
Additional paid-in capital	6,615,529	6,557,129
Accumulated deficit	(10,658,291)	(8,498,648)
Less: Treasury stock, at cost - 21.875 shares in 2011	-	(300,000)
Total Stockholders' Equity	<u>523,176</u>	<u>2,324,419</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 29,185,871</u>	<u>\$ 19,809,943</u>

See Notes to Financial Statements.

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)

Statements of Revenues and Expenses
and Accumulated Deficit

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Carrying charges - apartments (including electricity and gas)	\$ 15,022,904	\$ 14,314,529
Apartment resale fees	3,106,198	3,965,624
Commercial rent - store and offices (including electricity)	1,618,032	1,532,286
Parking rent, net of related expenses	687,929	712,383
Laundry room	126,000	126,000
Other income	455,185	461,942
Total Revenues	<u>21,016,248</u>	<u>21,112,764</u>
Expenses		
Real estate taxes	5,020,044	5,578,507
Utilities and fuel	6,591,024	6,574,733
Labor	2,422,421	2,384,588
Payroll overhead	1,317,265	1,277,552
Repairs and maintenance	2,628,920	2,514,466
Management	1,054,053	844,104
Security guards	665,331	658,967
Mortgage and loan interest	938,135	693,892
Insurance	754,691	674,186
Legal and audit	318,786	128,636
State and city corporation taxes	113,000	115,000
Senior care	39,200	39,178
Website	8,670	6,602
Conduit	12,413	12,063
Total Expenses	<u>21,883,953</u>	<u>21,502,474</u>
Expenses in Excess of Revenues Before Depreciation, Amortization and Mortgage and Loan Prepayment Penalties	(867,705)	(389,710)
Depreciation	1,078,993	989,500
Amortization	64,573	14,154
Mortgage and loan prepayment penalties	148,372	-
Expenses in Excess of Revenues	(2,159,643)	(1,393,364)
Accumulated Deficit - Beginning of Year	<u>(8,498,648)</u>	<u>(7,105,284)</u>
Accumulated Deficit - End of Year	<u>\$ (10,658,291)</u>	<u>\$ (8,498,648)</u>

See Notes to Financial Statements.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Statements of Cash Flows

For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Expenses in excess of revenues	\$ (2,159,643)	\$ (1,393,364)
Adjustments to reconcile expenses in excess of revenues to net cash (used in) provided by operating activities :		
Depreciation	1,078,993	989,500
Amortization	64,573	14,154
Changes in assets and liabilities :		
Receivables	(591,498)	82,581
Due to/from Hillman Housing Corporation	80,995	(867)
Prepaid expenses and other assets, net	(386,322)	(310,933)
Security deposits	(172,212)	-
Accounts payable and accrued expenses	114,287	617,906
Due to tenant-stockholders - abatements	(24,254)	148,765
Rents received in advance	(41,689)	29,123
Total adjustments	<u>122,872</u>	<u>1,570,229</u>
Net Cash (Used in) Provided by Operating Activities	<u>(2,036,771)</u>	<u>176,865</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for capital improvements	(4,211,187)	(778,138)
Insurance premium financing	576,916	-
Net Cash (Used in) Investing Activities	<u>(3,634,271)</u>	<u>(778,138)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage proceeds	25,000,000	-
Repayment of mortgage principal	(9,600,613)	(370,616)
Repayment of loans payable	(5,299,711)	-
Sale of treasury stock	358,400	635,581
Purchase of treasury stock	-	(840,000)
Net Cash Provided By (Used In) Financing Activities	<u>10,458,076</u>	<u>(575,035)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,787,034	(1,176,308)
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,407,432</u>	<u>3,583,740</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 7,194,467</u>	<u>\$ 2,407,432</u>
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:		
Cash Paid During the Year for:		
Interest	<u>\$ 938,135</u>	<u>\$ 693,892</u>
Taxes	<u>\$ 105,553</u>	<u>\$ 120,650</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Accrued real and personal property	<u>\$ 371,814</u>	<u>\$ -</u>

See Notes to Financial Statements.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES

History of the Cooperative

East River Housing Corporation ("the Cooperative"), a cooperative housing corporation, was incorporated in the State of New York on November 28, 1950. The Cooperative is located in New York City and consists of residential apartments and commercial space.

Through February 6, 1997, the Cooperative was organized and operated as a government regulated residential real estate corporation. Effective February 7, 1997, the Cooperative was reconstituted as a private cooperative governed by and subject to New York State Business Corporation Law.

On December 22, 1998, the Board of Directors ("the Board") of the Cooperative passed resolutions to transfer all of the issued and outstanding shares of the Cooperative's stock, which had been held in the name of the directors as nominees, to the tenant-stockholders of the Cooperative.

Management and Allocated Expenses

The Cooperative is one of two housing corporations, the other being Hillman Housing Corporation ("Hillman"), which are situated in a common community and whose operations are managed by a common management company. Certain expenses common to these two housing corporations including, but not limited to payroll, fuel and management expenses, are paid for by the Cooperative and then allocated and charged to Hillman, generally based on each housing corporations pro-rata share of the number of dwelling units. During the years ended June 30, 2012 and 2011, common expenses of \$4,931,929 and \$3,847,415, respectively, were allocated to Hillman.

Revenue Recognition

Revenue from tenant-stockholders and commercial tenants is recognized when earned in accordance with the terms of the related lease, or when services have been rendered, as applicable. Carrying and rental charges received in advance of due dates are deferred until earned.

Cash and Cash Equivalents

The Cooperative considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist principally of cash and cash equivalents on hand in financial institutions. Cash and cash equivalents may at times be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. As of June 30, 2012 and 2011, the FDIC insurance limit for an interest-bearing transaction account is \$250,000 and a non-interest bearing transaction account has unlimited insurance. At June 30, 2012 and 2011, substantially all of the Cooperative's cash and cash equivalents were on deposit at one New York bank, of which \$1,966 and \$0, respectively, were uninsured.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)

Receivables

The Cooperative believes that all receivables owed by tenant-stockholders, commercial tenants and Hillman for carrying charges, rental lease payments and services provided, respectively, are fully collectible and no allowance for doubtful accounts is required as of June 30, 2012 and 2011.

As of June 30, 2012, the Cooperative has an outstanding receivable of \$367,556 due from Amalgamated Dwellings, Inc. ("ADI"), an unrelated company that owns a building which the Cooperative supplies with steam services. ADI was disputing the amount it owes the Cooperative for the supply of steam services. On November 29, 2012, an agreement was reached between ADI and the Cooperative concerning this receivable (Note 11).

In addition, as of June 30, 2012, the Cooperative was owed \$282,173 from ADI for costs related to the upgrade and modernization of its heat and hot water plant ("Boiler Plant"). ADI was disputing the amount it owes the Cooperative for these upgrades. On November 29, 2012, an agreement was reached between ADI and the Cooperative concerning this receivable (Note 11).

Real and Personal Property

Real and personal property are recorded at cost and consist of:

	<u>June 30,</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 1,723,024	\$ 1,723,024
Buildings	18,283,505	18,283,505
Building improvements	17,982,270	21,548,780
Construction in progress :		
Local Law 11 work and boiler room conversion	4,322,536	331,343
Furniture and equipment	5,984,042	2,277,605
Parking lot improvements	460,619	448,261
	<u>48,755,996</u>	<u>44,612,518</u>
Less: accumulated depreciation	<u>29,615,288</u>	<u>28,975,819</u>
	<u>\$ 19,140,708</u>	<u>\$ 15,636,699</u>

Depreciation of real and personal property is computed by various methods over the following estimated useful lives: building - 39 years, building and parking lot improvements - 15 to 39 years and, furniture and equipment - 5 to 7 years. Depreciation expense for the years ended June 30, 2012 and 2011 was \$1,078,993 and \$989,500, respectively.

Deferred costs

Deferred financing and J-51 consulting costs, which are included in prepaid expenses and other assets on the balance sheet, are amortized using the straight-line method over the term of the related debt and period of J-51 abatements, respectively. Amortization expense for the years ended June 30, 2012 and 2011 was \$64,573 and \$14,154, respectively.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)

Amortization of deferred financing and J-51 consulting costs for each of the next five years is estimated to be \$60,852 per annum.

Income Taxes

The Cooperative's income tax policies provide that those portions of maintenance charges that are applicable to capital improvements, as determined by the Board, and mortgage amortization, will be accounted for as contributions to the additional paid-in capital of the Cooperative for income tax reporting purposes, whereas, such items are recognized as revenue for financial reporting. This accounting practice results in a permanent difference between financial and tax reporting revenue.

The Cooperative has adopted the provisions of Accounting Standards Codification Topic 740 "Income Taxes - Accounting for Uncertainties", which provides standards for establishing and classifying any tax provisions for uncertain tax positions. The Cooperative is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2008.

For the years ended June 30, 2012 and 2011, contributions to additional paid-in capital for income tax purposes were \$52,290 and \$307,529, respectively, consisting of mortgage amortization for both years.

Use 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 the reported amounts of assets and liabilities, 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.

Comparative Presentation

Certain amounts in the June 30, 2011 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

Management has evaluated events subsequent to the date of the balance sheet through December 17, 2012, the date the financial statements were available to be issued.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 2: TENANT - STOCKHOLDER LOANS

As part of the reconstitution in 1997 (Note 1), the Cooperative instituted a Substitute SCRIE Program to provide benefits to all tenant-stockholders who became eligible for the Senior Citizen Rent Increase Exemption ("SCRIE") program benefits within the first two years after the effective date of the reconstitution. The Substitute SCRIE Program benefits consist of deferral of the payment of carrying charges payable by a participating tenant-stockholder which are attributable to the increase in real estate taxes over a base year amount. The deferral of payments are treated as a loan to the tenant-stockholder, which is repayable only upon the sale or transfer of the shares of stock and accompanying proprietary lease owned by the tenant-stockholder.

The loans do not bear interest. A participating tenant-stockholder is required to enter into an agreement with the Cooperative evidencing this loan and its terms and to execute a UCC-1 financing statement. Each participant in the Substitute SCRIE Program is charged an annual \$25 processing fee by the Cooperative. At June 30, 2012 and 2011, the outstanding loans to tenant-stockholders under the Substitute SCRIE Program, which are included in receivables from tenant-stockholders, were approximately \$188,000 and \$167,000, respectively.

NOTE 3: MORTGAGE AND LOANS PAYABLE

The Cooperative had an outstanding mortgage loan payable to Amalgamated Bank of New York ("ABNY") at a fixed interest rate of 4.4% per annum. The mortgage required monthly payments of principal and interest totaling \$56,699. The mortgage was set to mature on August 1, 2013. On September 15, 2011, the outstanding mortgage balance was \$9,557,541, at which time, the mortgage was fully satisfied using the proceeds of the First Mortgage discussed below.

The Cooperative had an unsecured term loan with ABNY at a fixed interest rate of 4.4% per annum. The loan required monthly payments of principal and interest totaling \$12,519. The loan was set to mature on August 1, 2013. On September 15, 2011, the outstanding loan balance was \$2,108,323, at which time, the loan was fully satisfied using the proceeds of the First Mortgage discussed below.

The Cooperative had an unsecured term loan with ABNY at a fixed interest rate of 5.25% per annum. The loan required monthly payments of principal and interest totaling \$19,327. The loan was set to mature on May 17, 2013. On September 15, 2011, the outstanding loan balance was \$3,171,337, at which time, the loan was fully satisfied using the proceeds of the First Mortgage discussed below.

In connection with the early extinguishment of the mortgage and loans payable to ABNY, the Cooperative paid prepayment penalties amounting to \$148,372.

On September 15, 2011, the Cooperative obtained a first mortgage loan ("First Mortgage") from New York Community Bank ("NYCB") in the amount of \$25,000,000. The proceeds of the loan were used to satisfy the existing mortgage and loans payable to ABNY, as discussed above; pay for closing costs associated with the refinancing; and to provide funds for capital projects.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 3: MORTGAGE AND LOANS PAYABLE (continued)

The First Mortgage requires monthly payments of interest only at the following rates:

<u>Period</u>	<u>Rate</u>
September 15, 2011 - September 30, 2016	4.00%
October 1, 2016 - September 30, 2021	4.50%

Beginning October 1, 2021 thru maturity, at the election of the Cooperative, interest will be at either a) Prime plus 2.75% or b) the sum of the Federal Home Loan Bank of New York Index, as defined, plus 3.00% ("Fixed Rate"). In no event will Fixed Rate interest be less than 4.5%. If the Cooperative elects the Fixed Rate interest option, it is required to pay the lender a fee equal to 1% of the outstanding principal balance of the First Mortgage at the time of the election.

The First Mortgage matures on October 1, 2026, at which time a balloon payment is due for the entire outstanding amount, plus any accrued interest thereon.

The Cooperative has right to make a single prepayment of up to \$2,000,000 at any one time in each fiscal year ended September 30, without a prepayment penalty premium. For the first ten years of the First Mortgage loan, the Cooperative may prepay the First Mortgage in full, subject to prepayment compensation, as defined in the First Mortgage agreement.

The First Mortgage is secured by all real and personal property as well as substantially all assets of the Cooperative and contains certain restrictions including those related to the transfer of more than three apartments to a single tenant-stockholder and the incurrence of additional debt securing the Cooperative's property.

NOTE 4: TREASURY STOCK

During the year ended June 30, 2012, the Cooperative sold 21.875 shares of treasury stock to tenant-stockholders which were allocated to one apartment. As of June 30, 2012, the Cooperative held no shares of treasury stock.

During the year ended June 30, 2011, the Cooperative sold 37.75 shares of treasury stock to tenant-stockholders which were allocated to one apartment. As of June 30, 2011, the Cooperative held 21.875 shares of treasury stock.

NOTE 5: CARRYING CHARGES AND RENTS – APARTMENTS AND COMMERCIAL SPACE

Carrying charges for apartments are based on a per room rate that was originally determined based on the attributes of the room (i.e. size, view, etc.), when the housing corporation was completed in the mid-1950s. An increase in carrying charges is based on an annual budget determined by the Board of Directors. Effective July 1, 2011, the Cooperative instituted a carrying charge increase of 3.5%, over the per room rates in effect in June 30, 2011.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

**NOTE 5: CARRYING CHARGES AND RENTS – APARTMENTS AND COMMERCIAL SPACE
(continued)**

The Cooperative leases space to commercial tenants pursuant to leases. As of June 30, 2012, the Cooperative's total leasable commercial space of approximately 43,000 square feet was occupied by 21 tenants, including two tenants that occupied approximately 52% of the total leasable area.

Future minimum rentals under noncancellable commercial operating leases as of June 30, 2012, excluding charges for electricity and real estate taxes, are as follows:

For The Years Ending June 30,	
2013	\$1,109,794
2014	1,018,199
2015	1,043,844
2016	908,653
2017	554,251
Thereafter	<u>2,228,794</u>
	<u><u>\$6,863,536</u></u>

NOTE 6: APARTMENT RESALE FEES

The Cooperative assesses its tenant-stockholder fees on the resale of apartments. Effective October 1, 2008, the rate is 20% on the first-time sale of an apartment and 5% on all second and subsequent sales of the same apartment.

For the year ended June 30, 2012 there were 30 first-time sales of apartments and 16 second-time sales of apartments, resulting in apartment resale fees of \$3,106,198.

For the year ended June 30, 2011, there were 37 first-time sales of apartments and 18 second-time sales of apartments resulting in apartment resale fees of \$3,989,507.

NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Cooperative's governing documents do not require the accumulation of funds to finance future major repairs and replacements. In addition, the Cooperative has not conducted a study to determine the remaining useful lives of the components of real and personal common property and current estimates of the costs of future major repairs and replacements. When replacement funds are needed to meet future needs for major repairs and replacements, the Cooperative has the right to utilize reserve funds, borrow, increase maintenance assessments, pass special assessments or delay major repairs and replacements until funds are available. The effects on future assessments have not been determined at this time.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 8: PENSION

The Cooperative's union employees are covered by multi-employer pension plans pursuant to two collective bargaining agreements which expire in April 2014 and April 2015. Charges to operations for contributions to these multi-employer retirement pension plans amounted to \$265,584 and \$253,697 for the years ended June 30, 2012 and 2011, respectively.

Beginning January 1, 2004, the Cooperatives' nonunion employees are covered by a multi-employer retirement plan. Charges to operations for contributions to the multi-employer retirement plan amounted to \$36,107 and \$45,711 for the years ended June 30, 2012 and 2011, respectively.

Under the Employee Retirement Income Security Act of 1974, as amended, an employer, upon withdrawal from a multi-employer plan is required to continue to pay its proportionate share of the plan's unfunded vested benefits. The information as to the Cooperative's portion of accumulated plan benefits and plan assets is not determinable. The Cooperative has no intention of withdrawing from these multi-employer pension plans.

The Cooperative does not administer or control any of these multi-employer plans.

NOTE 9: COMMITMENT AND CONTINGENCIES

In February 2011, the Cooperative entered into a dual-fuel service contract with Consolidated Edison Company of New York, Inc. ("Con Edison") to purchase 2,234,799 therms ("Minimum Purchase") of gas at \$0.34 a therm for a one-year period beginning on the "turn on date", as defined in the service contract. If the Cooperative consumes more than the Minimum Purchase before the one-year period, the contract will terminate. If the amount of gas consumed by the Cooperative is less than the Minimum Purchase required during the one-year period, the Cooperative is obligated to pay Con Edison an amount equal to the difference between the Minimum Purchase and the amount of therms actually purchased at a rate of \$0.34 a therm. The Cooperative expects to fully consume the Minimum Purchase.

On August 25, 2011, the Cooperative entered into a contract with Dynamic Energy Group Inc. ("Dynamic") in the amount of \$4,860,875 to upgrade and modernize its heat and hot water plant ("Boiler Plant") - which used number 6 fuel oil - to natural gas with an alternative of number 2 fuel oil. The boiler is for the common use of Hillman, the Cooperative and ADI. The Boiler Plant costs incurred through June 30, 2012, are allocated to Hillman, the Cooperative and ADI at a rate of 26.02%, 66.23% and 7.75%, respectively. The Cooperative was in litigation with ADI, in regard to its allocable share of the Boiler Plant costs which the Cooperative estimates were \$282,173 at June 30, 2012. On November 29, 2012, an agreement was reached between ADI and the Cooperative concerning this receivable (Note 11).

At June 30, 2012, the Cooperative incurred \$3,284,775 of costs related to its share of the Dynamic contract, including \$312,748 of retainage which has been accrued and included in Retainage payable on the balance sheet at June 30, 2012. The Cooperative expects to complete the remaining work during the year ended June 30, 2013.

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 9: COMMITMENT AND CONTINGENCIES (continued)

On March 14, 2012, the Cooperative entered into a contract with AM&G Waterproofing LLC ("AM&G") in the amount of \$2,291,900 for the inspection of the exterior walls and appurtenances, and concrete and façade repairs as required under Local Law 11 of the City of New York. At June 30, 2012, the Cooperative incurred \$590,656 of costs related to this contract, including \$59,066, of retainage which has been accrued and included in Retainage payable on the balance sheet at June 30, 2012. The Cooperative expects to complete the remaining work during the year ended June 30, 2013.

NOTE 10: INCOME TAXES

The Cooperative has approximately \$12,922,000 in net operating loss carryforwards ("NOLS") available for federal income tax purposes. These NOLS were generated in the years ended June 30, 2000 through June 30, 2012, from patronage and nonpatronage activities. These NOLS expire in tax years ended June 30, 2020 through 2032. Because the future utilization of these NOLS tax is uncertain, no related deferred tax asset has been reflected in the accompanying financial statements.

The Cooperative is subject to federal, New York State and New York City income taxes on its nonpatronage income and its tax returns are subject to review by the respective taxing authorities for tax years after 2008 (Note 1). Charges to operations applicable to income tax expense amounted to \$113,000 and \$115,000 for the years ended June 30, 2012 and 2011, respectively.

NOTE 11: LITIGATION & SUBSEQUENT EVENTS

The Cooperative is subject to various claims and legal proceedings that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse affect on the financial condition or results of operations of the Cooperative. Additionally, management believes that with respect to pending claims for personal injuries sustained by claimants on the Cooperative's properties, the Cooperative has adequate insurance coverage to cover these claims.

As of June 30, 2012, the Cooperative was in litigation with ADI for breach of contract relating to ADI's failure to pay its share of the operating costs associated with the supply of steam to ADI by the Cooperative which amounted to \$367,556 at June 30, 2012. On November 29, 2012, the Cooperative and ADI entered into an agreement (the "Agreement") which provides that ADI will be responsible for its 7.75% allocable share of the costs of upgrading the Boiler Plant and for the supply of steam services provided by the Cooperative. The Agreement expires on September 15, 2031, unless further extended or terminated earlier, as provided for in the Agreement. As of June 30, 2012, 7.75% of the costs of upgrading the Boiler Plant amounted to \$282,173.

Pursuant to the Agreement, payment of amounts due to the Cooperative shall commence on the closing date of ADI's refinancing or on May 31, 2013 ("Commencement Date"), whichever occurs sooner. The amounts due for the supply of steam services accrued on

**EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 11: LITIGATION & SUBSEQUENT EVENTS (continued)

June 30, 2012 through the Commencement Date, are due in full on the Commencement Date. Costs related to the upgrade and modernization of the Boiler Plant accrued on June 30, 2012 through the Commencement Date, shall be paid, without interest, in forty-eight (48) consecutive equal monthly installments beginning on the Commencement Date.

SUPPLEMENTAL INFORMATION

Independent Auditors' Report on Supplemental Information

To the Stockholders
East River Housing Corporation
New York, N.Y.

We have audited the financial statements of East River Housing Corporation as of and for the years ended June 30, 2012 and 2011, and our report thereon dated December 17, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The information, on pages 16 and 17, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Cooperative's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

Handwritten signature in cursive script, appearing to read "Marko Paneth" followed by a checkmark and "DH".

New York, New York
December 17, 2012

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Prepaid Expenses and Other Assets		
Unexpired insurance	\$ 607,777	\$ 560,989
Deferred financing costs, net	782,811	260,176
J-51 consulting fees, net	48,539	55,366
Fuel inventory	43,110	267,358
Painting	22,667	34,756
Security contract	30,168	27,231
State and city corporation taxes	2,553	10,000
	<u>\$ 1,537,625</u>	<u>\$ 1,215,876</u>
Other Income		
Interest income	\$ 1,987	\$ 1,941
Late fees	57,990	58,270
Fitness room income, net	159,570	167,588
Miscellaneous	235,638	234,144
	<u>\$ 455,185</u>	<u>\$ 461,943</u>
Utilities and Fuel Expenses		
Electricity	\$ 2,006,286	\$ 1,996,949
Water and sewer	1,042,073	1,026,244
Fuel oil	3,125,479	3,458,699
Natural gas	347,666	-
Gas	69,520	92,841
	<u>\$ 6,591,024</u>	<u>\$ 6,574,733</u>

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Labor Expenses		
	\$ 1,171,254	\$ 1,159,816
Porters	557,443	523,782
Handymen	604,064	605,544
Boiler room	89,660	95,446
Supervisors	<u>\$ 2,422,421</u>	<u>\$ 2,384,588</u>
Payroll Overhead		
Union pension and welfare funds	\$ 837,565	\$ 785,527
Payroll taxes	331,601	334,190
Group life and major medical insurance	94,766	97,037
Retirement expenses	36,107	45,711
Payroll services	17,226	15,087
	<u>\$ 1,317,265</u>	<u>\$ 1,277,552</u>
Repairs and Maintenance Expenses		
Apartment repairs	\$ 89,005	\$ 181,335
Janitorial supplies	308,270	295,542
Elevator	305,948	326,455
Gardening	149,798	111,192
Plumbing	366,401	345,218
Heating and air conditioning	201,749	116,511
Painting and plastering	215,414	154,517
Electrical	333,351	199,121
Exterminating	256,165	379,218
Vehicle	25,795	29,602
Security	139,603	177,492
Compactors	216	8,458
Uniforms	15,409	16,128
Claims paid	207,232	153,432
Miscellaneous	14,564	2,048
	<u>\$ 2,628,920</u>	<u>\$ 2,496,269</u>
Management Expenses		
Salaries	\$ 515,378	\$ 564,790
Telephone / Communication	47,493	42,146
Stationery, printing and office supplies	59,164	63,579
Professional fees	392,613	170,926
Miscellaneous	39,405	20,860
	<u>\$ 1,054,053</u>	<u>\$ 862,301</u>