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

**Financial Statements
and Supplemental Information
Years Ended June 30, 2013 and 2012
(Together with Independent Auditors' Report)**



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

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Independent Auditors' Report

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

We have audited the accompanying financial statements of East River Housing Corporation (the "Cooperative"), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues and 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.

Auditors' 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 auditors' 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.

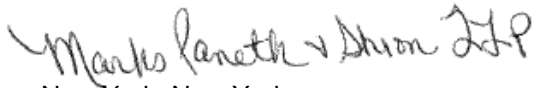
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of June 30, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Note 7 to the financial statements, management has omitted 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 financial statements as a whole. Such missing information, although not a part of the financial statements as a whole, is required to be disclosed by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements as a whole in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to that matter.

A handwritten signature in black ink, appearing to read "Marko Paneth" followed by a stylized mark that could be initials or a flourish.

New York, New York
December 3, 2013

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

Balance Sheets

June 30, 2013 and 2012

ASSETS

	<u>2013</u>	<u>2012*</u>
Cash and cash equivalents	\$ 3,095,090	\$ 7,194,467
Receivables:		
Tenant-stockholders	185,071	190,236
Commercial tenants, net	126,856	100,791
Due from Amalgamated Dwellings, Inc	1,685	649,729
Total receivables	<u>313,612</u>	<u>940,756</u>
Prepaid expenses and other assets, net	1,371,869	1,537,625
Security deposits - vendors	82,454	204,712
Security deposits - commercial tenants	167,603	167,603
Real and personal property, net	<u>21,150,396</u>	<u>19,140,708</u>
TOTAL ASSETS	<u><u>\$ 26,181,024</u></u>	<u><u>\$ 29,185,871</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Accounts payable and accrued expenses	\$ 1,472,930	\$ 2,091,451
Tenant deposits	276,095	197,327
Insurance premium financing	-	576,916
Retainage payable - Local Law 11 work and boiler room conversion	93,026	371,814
Due to Hillman Housing Corporation	16,065	80,421
Due to tenant-stockholders - real property tax abatements	324,145	124,512
Rents received in advance	83,274	52,651
Security deposits payable - commercial tenants	167,603	167,603
Mortgage payable	<u>23,500,000</u>	<u>25,000,000</u>
Total Liabilities	<u>25,933,138</u>	<u>28,662,695</u>
Commitments 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	6,649,404	6,615,529
Accumulated deficit	<u>(10,967,456)</u>	<u>(10,658,291)</u>
Total Stockholders' Equity	<u>247,886</u>	<u>523,176</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 26,181,024</u></u>	<u><u>\$ 29,185,871</u></u>

*Reclassified to conform to current year presentation.

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Revenues		
Carrying charges - apartments (including electricity and sublet fees)	\$ 14,756,133	\$ 15,022,904
Apartment resale fees	5,426,278	3,106,198
Commercial rent - store and offices (including electricity)	1,613,724	1,618,032
Parking rent, net of parking expenses	661,729	687,929
Laundry room	126,000	126,000
Other income	452,844	455,185
Grant income - boiler room conversion	107,558	-
Total Revenues	<u>23,144,266</u>	<u>21,016,248</u>
Expenses		
Real estate taxes	6,009,505	5,020,044
Utilities and fuel	4,900,475	6,591,024
Labor	2,629,565	2,422,421
Payroll overhead	1,419,255	1,317,265
Repairs and maintenance	2,837,329	2,628,920
Management	1,067,613	1,054,053
Security guards	662,726	665,331
Mortgage and loan interest	1,006,736	938,135
Insurance	788,070	754,691
Legal and accounting	594,791	318,786
State and city corporation taxes	125,400	113,000
Senior care	42,444	39,200
Website	1,205	8,670
Conduit	12,612	12,413
Total Expenses	<u>22,097,726</u>	<u>21,883,953</u>
Revenues in Excess of Expenses (Expenses in Excess of Revenues)		
Before Depreciation, Amortization and Mortgage and Loan Prepayment Penalties	1,046,540	(867,705)
Depreciation	1,293,415	1,078,993
Amortization	62,290	64,573
Mortgage and loan prepayment penalties	<u>-</u>	<u>148,372</u>
Expenses in Excess of Revenues	(309,165)	(2,159,643)
Accumulated Deficit - Beginning of Year	<u>(10,658,291)</u>	<u>(8,498,648)</u>
Accumulated Deficit - End of Year	<u><u>\$ (10,967,456)</u></u>	<u><u>\$ (10,658,291)</u></u>

See Notes to Financial Statements.

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)

Statements of Cash Flows

For the Years Ended June 30, 2013 and 2012

	2013	2012*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Expenses in excess of revenues	<u>\$ (309,165)</u>	<u>\$ (2,159,643)</u>
Adjustments to reconcile expenses in excess of revenues to net cash provided by (used in) operating activities :		
Depreciation	1,293,415	1,078,993
Amortization	62,290	64,573
Changes in assets and liabilities :		
Receivables	627,144	(591,498)
Due to Hillman Housing Corporation	(64,356)	80,995
Prepaid expenses and other assets, net	103,466	(386,322)
Security deposits	122,258	(172,212)
Accounts payable and accrued expenses	(618,523)	133,705
Tenant deposits	78,768	(19,418)
Due to tenant-stockholders - real property tax abatements	199,633	(24,254)
Rents received in advance	<u>30,625</u>	<u>(41,689)</u>
Total adjustments	<u>1,834,720</u>	<u>122,873</u>
Net Cash Provided by (Used in) Operating Activities	<u>1,525,555</u>	<u>(2,036,770)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for capital improvements	(3,581,891)	(4,211,187)
Insurance premium financing	<u>(576,916)</u>	<u>576,916</u>
Net Cash Used in Investing Activities	<u>(4,158,807)</u>	<u>(3,634,271)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage proceeds	-	25,000,000
Repayment of mortgage principal	(1,500,000)	(9,600,613)
Repayment of loans payable	-	(5,299,711)
Sale of treasury stock	377,254	358,400
Purchase of treasury stock	<u>(343,379)</u>	<u>-</u>
Net Cash (Used in) Provided by Financing Activities	<u>(1,466,125)</u>	<u>10,458,076</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,099,377)	4,787,035
CASH AND CASH EQUIVALENTS - beginning of year	<u>7,194,467</u>	<u>2,407,432</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 3,095,090</u>	<u>\$ 7,194,467</u>
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:		
Cash Paid During the Year for:		
Interest	<u>\$ 1,006,736</u>	<u>\$ 938,135</u>
State and city coporation taxes	<u>\$ 114,849</u>	<u>\$ 105,553</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Accrued real and personal property	<u>\$ 93,026</u>	<u>\$ 371,814</u>

*Reclassified to conform to current year presentation.

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 common management. 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, 2013 and 2012, common expenses of \$3,737,103 and \$4,931,929, respectively, were allocated to Hillman.

The Cooperative operates a heat and hot water facility ("Boiler Plant"), which supplies steam service to Hillman and Amalgamated Dwellings, Inc. ("ADI"), an unrelated company. Pursuant to a November 29, 2012 agreement (the "Agreement"), ADI is responsible for 7.75% of certain costs relative to 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.

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.

Revenue from carrying charges is reported net of real property tax abatements received from the New York City Department of Finance which has been credited to tenant-stockholders' accounts.

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.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)

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, 2013, the FDIC insurance limit for interest bearing and non-interest bearing transaction accounts was \$250,000. As of June 30, 2012, the FDIC insurance limit for an interest bearing transaction account was \$250,000 and non-interest bearing transaction accounts had unlimited insurance. At June 30, 2013 and 2012, the majority of the Cooperative's cash and cash equivalents were on deposit at one New York bank, of which \$3,575,388 and \$1,966, respectively, were uninsured.

Receivables

Accounts receivable are recorded at net realizable value representing the carrying amount less an allowance for uncollectible amounts.

The Cooperative uses the allowance method to account for uncollectible accounts receivable balances. Under the allowance method, an estimate of uncollectible receivable balances is made based on historical experience and review of individual account receivable balances. At June 30, 2013 and 2012, the allowance for uncollectible amounts relating to commercial tenant receivables was \$4,000 and \$0, respectively.

The Cooperative believes that all receivables owed by tenant-stockholders are fully collectible and no allowance for doubtful accounts is required as of June 30, 2013 and 2012.

Real and Personal Property

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

	<u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Land	\$ 1,723,024	\$ 1,723,024
Buildings	18,283,505	18,283,505
Building improvements	29,135,869	17,982,270
Construction in progress :		
Local Law 11 work and boiler room conversion	-	4,322,536
Furniture and equipment	2,431,540	5,984,042
Parking lot improvements	<u>420,261</u>	<u>460,619</u>
	51,994,199	48,755,996
Less: accumulated depreciation	<u>30,843,803</u>	<u>29,615,288</u>
	<u>\$ 21,150,396</u>	<u>\$ 19,140,708</u>

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)

Real and Personal Property (continued)

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, 2013 and 2012 was \$1,293,415 and \$1,078,993, respectively.

It is the Cooperative's policy, in the year that it occurs, to write off assets that become fully depreciated whether or not the assets have been disposed of during the year.

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, 2013 and 2012 was \$62,290 and \$64,573, respectively.

Amortization of deferred financing and J-51 consulting costs for each of the next five years is estimated to be \$62,290 per annum and \$458,125 thereafter.

Income Taxes

The Cooperative's income tax policies provide that those portions of carrying 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 2010.

For the years ended June 30, 2013 and 2012, contributions to additional paid-in capital for income tax purposes were \$1,500,000 and \$52,290, respectively, consisting of voluntary prepayment of mortgage principal and mortgage amortization, respectively.

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.

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

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)

Comparative Presentation

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform to current year presentation.

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, 2013 and 2012, the outstanding loans to tenant-stockholders under the Substitute SCRIE Program, which are included in receivables from tenant-stockholders, were approximately \$176,000 and \$188,000, respectively.

NOTE 3: MORTGAGE AND LOANS PAYABLE

On September 15, 2011, the Cooperative obtained a mortgage loan ("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 below; pay for closing costs associated with the refinancing; and to provide funds for capital projects.

The 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 through 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 Mortgage at the time of the election.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 3: MORTGAGE AND LOANS PAYABLE (continued)

The Mortgage is a non-amortizing, interest only loan maturing 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 Mortgage loan, the Cooperative may prepay the Mortgage in full, subject to prepayment compensation, as defined in the Mortgage agreement.

In April 2013, the Cooperative made a \$1,500,000 prepayment on the Mortgage. At June 30, 2013, the outstanding balance of the Mortgage was \$23,500,000.

The 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.

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. 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 Mortgage discussed above.

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. 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 Mortgage discussed above.

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. 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 Mortgage discussed above.

In connection with the early extinguishment of the mortgage and loans payable to ABNY on September 15, 2011, the Cooperative paid prepayment penalties amounting to \$148,372.

NOTE 4: TREASURY STOCK

The Cooperative uses the par value method to account for treasury stock. Any gain on the sale of treasury stock is accounted for as an increase to additional paid-in capital. A loss is accounted for in the same manner, but only to the extent of any previously accumulated gains. The Cooperative accounts for any excess loss as an increase to accumulated deficit.

During the year ended June 30, 2013, the Cooperative purchased and sold 25 shares of treasury stock to tenant-stockholders which were allocated to one apartment. As of June 30, 2013, the Cooperative held no shares of treasury stock.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 4: TREASURY STOCK (continued)

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.

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. Any increase in carrying charges is based on an annual budget determined by the Board of Directors.

The Cooperative leases space to commercial tenants pursuant to leases. As of June 30, 2013, 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, 2013, excluding charges for electricity and real estate taxes, are as follows:

**For The Years
Ending June 30,**

2014	\$ 1,018,199
2015	1,043,844
2016	908,653
2017	554,251
2018	442,957
Thereafter	<u>1,785,838</u>
	<u>\$ 5,753,742</u>

Commercial rental income amounted to \$1,613,724 and \$1,618,032 for the years ended June 30, 2013 and 2012, respectively.

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, 2013 there were 55 first-time sales of apartments and 26 second-time sales of apartments, resulting in apartment resale fees of \$5,426,278.

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.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

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.

NOTE 8: PENSIONS

A majority of the Cooperative's direct labor is supplied by union employees. The Cooperative participates in the Building Service 32BJ Pension Fund ("32 BJ Plan") and The Joint Industry Engineers Union Local 30 Pension Trust Plan ("Local 30 Plan") (collectively, the "Plans"), both of which are multi-employer non-contributory defined benefit pension plans. The Plans provide retirement benefits to eligible participants employed in the building service industry who are covered under collective bargaining agreements. The Plans are administered by Boards of Trustees ("Trustees") and are subject to the provisions of the Employees Retirement Income Security Act of 1974.

The Cooperative's participation in the Plans above are outlined in the table below. The Pension Protection Act ("PPA") Zone Status' presented in the Cooperative's financial statements are for the respective Plan years indicated in the table. The Zone Status is based on information obtained from the Plans and is certified by the Plans' actuaries. Among other factors, plans in the red zone are generally less than 65% funded.

Based on the Plan's annual report on Form 5500, the 32 BJ Plan was 57.8% funded at July 1, 2011. The "FIP/RP Status Pending/Implemented" column indicates if a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

According to the actuarial status certification of the 32 BJ Plan required under Internal Revenue Code Section 432, the actuary certified that as of the 32 BJ Plan year beginning July 1, 2011, the Plan is in critical status under the PPA. The significance of entering critical status is that the Plan's Trustees are required by law to adopt a "rehabilitation plan," consistent with the requirements of the PPA. Adoption of a rehabilitation plan is designed to improve the Plan's financial health and to allow it to emerge from critical status. The Trustees adopted a rehabilitation plan consistent with this requirement. In addition, a 10% surcharge remains in effect for each Plan year in which the Plan remains in critical status. Surcharges do not generate benefit accruals.

The Cooperative also participates in the National Rural Electric Cooperative Association Retirement Security Plan ("NRECA"). This Plan is available to certain non-union employees who have met certain service requirements and became employed by the Cooperative before January 1, 2011. This Plan requires annual contributions by participating employees as well as the Cooperative.

**EAST RIVER HOUSING CORPORATION
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Notes to Financial Statements

NOTE 8: PENSIONS (continued)

For the NRECA Plan, a "Zone Status" determination is not required under the PPA. The actuary reports that the NRECA Plan was more than 80 percent funded on January 1, 2013. Because certain provisions of the PPA do not apply to the NRECA Plan, FIP/RP Status and surcharges imposed are not applicable.

The Cooperative's contributions to the three multi-employer Plans above, for the years ended June 30, 2013 and 2012, were \$302,140 and \$301,691, respectively.

Pension Plan	Employer Identification Number	Fiscal Year-End	PPA Zone Status	FIP/RP Status Pending/Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Building Service 32BJ Pension Fund	13-1879376	June 30, 2012	Red	Yes	Yes	April 20, 2014
Board of Trustee IUOE Local 30 Pension Fund	51-6045848	December 31, 2012	Green	N/A	None	April 30, 2015
National Rural Electric Cooperative Association Retirement Security Plan	53-0116145	December 31, 2012	N/A	N/A	N/A	N/A

The risks of participating in multi-employer pension plans are different from single-employer plans in that: assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and if the Cooperative stops participating in the multi-employer plans, the Cooperative may be required to pay each Plan an amount based on the underfunded status of each plan, referred to as a withdrawal liability. The Cooperative has no plans to withdraw from any of the three plans.

NOTE 9: OTHER COMMITMENTS 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. As required under the contract, since the Cooperative did not consume the Minimum Purchase by February 2013, the Cooperative paid Con Edison \$55,713 for the shortfall in gas usage. The contract was not renewed.

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

Notes to Financial Statements

NOTE 9: OTHER COMMITMENTS AND CONTINGENCIES (continued)

As described in Note 1, the Cooperative has entered into agreements to provide certain services to Hillman Housing Corporation and Amalgamated Dwellings, Inc.

NOTE 10: INCOME TAXES

The Cooperative has approximately \$15,194,000 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, 2013, from patronage and nonpatronage activities. These NOLS expire in tax years ended June 30, 2020 through 2033. 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 2009 (Note 1). For the years ended June 30, 2013 and 2012, the Cooperative's state and city corporation taxes were based on the Cooperative's net capital base and amounted to \$125,400 and \$113,000, respectively.

NOTE 11: LITIGATION

The Cooperative has commenced legal proceedings against several tenant-stockholders, asserting that the tenant-stockholders have harbored pets in violation of the tenant-stockholders' proprietary leases. In three instances, the defendants have initiated counter-claims against the Cooperative, asserting that the Cooperative engaged in discrimination and/or did not provide reasonable accommodation by allowing the tenant-stockholders to have a pet. It is possible that any of these counter-claims could result in an award of damages against the Cooperative, including compensatory damages, legal fees and/or punitive damages. Because no discovery has been completed with respect to any of these proceedings, management and its legal counsel are unable to determine with certainty what the final outcome will be. Accordingly, no contingent liability has been provided for in the accompanying financial statements. In accordance with the Cooperative's bylaws, no pets are allowed except for service animals.

In addition, 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 effect 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.

NOTE 12: SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the balance sheet through December 3, 2013, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

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WESTCHESTER
CAYMAN ISLANDS



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Independent Auditors' Report on Supplemental Information

To the Tenant-Stockholders of
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, 2013 and 2012, and our report thereon dated December 3, 2013, which expressed an unqualified opinion on those financial statements, appears on pages 1 and 2. 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.



New York, New York
December 3, 2013



EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
As of and for the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Prepaid Expenses and Other Assets, Net		
Unexpired insurance	\$ 410,679	\$ 607,777
Deferred financing costs, net of amortization	727,863	782,811
J-51 consulting fees, net of amortization	41,712	48,539
Fuel inventory	143,914	43,110
Painting	10,578	22,667
Security contract	37,123	30,168
State and city corporation taxes	-	2,553
	<u>\$ 1,371,869</u>	<u>\$ 1,537,625</u>
Other Income		
Interest income	\$ 10,103	\$ 1,987
Late fees	47,129	57,990
Fitness room income, net of fitness expenses	174,976	159,570
Storage and bike room	162,265	163,479
Miscellaneous	58,371	72,159
	<u>\$ 452,844</u>	<u>\$ 455,185</u>
Utilities and Fuel Expenses		
Electricity	\$ 1,861,987	\$ 2,006,286
Water and sewer	1,137,227	1,042,073
Fuel oil	82,383	3,125,479
Natural gas	1,746,788	347,666
Gas	72,090	69,520
	<u>\$ 4,900,475</u>	<u>\$ 6,591,024</u>

See Independent Auditors' Report on Supplemental Information.

EAST RIVER HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)
SUPPLEMENTAL INFORMATION
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Labor Expenses		
	\$ 1,299,499	\$ 1,171,254
Porters	594,124	557,443
Handymen	640,569	604,064
Boiler room	95,373	89,660
Supervisors	<u>\$ 2,629,565</u>	<u>\$ 2,422,421</u>
Payroll Overhead		
Union pension and welfare funds	\$ 882,268	\$ 837,565
Payroll taxes	355,274	331,601
Group life and major medical insurance	125,081	94,766
Retirement expenses	39,778	36,107
Payroll services	16,854	17,226
	<u>\$ 1,419,255</u>	<u>\$ 1,317,265</u>
Repairs and Maintenance Expenses		
Building and apartment repairs	\$ 211,163	\$ 89,005
Janitorial supplies	365,198	308,270
Elevator	315,599	305,948
Gardening	230,836	149,798
Plumbing	357,417	366,401
Heating and air conditioning	115,195	201,749
Decommission of oil tanks	189,810	-
Painting and plastering	183,910	215,414
Electrical	178,663	333,351
Exterminating	208,460	256,165
Vehicle	37,606	25,795
Security	144,456	139,603
Compactors	2,146	216
Uniforms	15,954	15,409
Claims paid	247,095	207,232
Miscellaneous	33,821	14,564
	<u>\$ 2,837,329</u>	<u>\$ 2,628,920</u>
Management Expenses		
Salaries	\$ 571,885	\$ 515,378
Telephone / Communication	56,289	47,493
Stationery, printing and office supplies	62,697	59,164
Professional fees	330,862	392,613
Miscellaneous	45,880	39,405
	<u>\$ 1,067,613</u>	<u>\$ 1,054,053</u>

See Independent Auditors' Report on Supplemental Information.