

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

**Financial Statements  
and Supplemental Information**  
(Together with Independent Auditors' Report)

**Years Ended June 30, 2016 and 2015**

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

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

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**June 30, 2016 and 2015**

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## **Independent Auditors' Report**

To the 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, 2016 and 2015, and the related statements of revenues and expenses and stockholders' 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, 2016 and 2015, 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.

## Omission of Required Supplementary Information about Future Major Repairs and Replacements

Management has omitted to present 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 a part of the basic financial statements, is required 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 this missing information.

*Markus Paneth LLP*

Woodbury, New York  
March 17, 2017



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

**Balance Sheets**  
**June 30, 2016 and 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 1,668,675	\$ 3,016,169
Receivables:		
Tenant-stockholders	148,274	144,910
Commercial tenants, net of allowance for doubtful accounts of \$70,000 and \$37,000 at June 30, 2016 and 2015, respectively	447,355	123,182
Other	122,732	219,732
Hillman Housing Corporation (affiliate)	166,740	707
Total receivables	<u>885,101</u>	<u>488,531</u>
Prepaid expenses and other assets, net	439,086	213,636
Security deposits - vendors	32,500	82,454
Security deposits - commercial tenants	169,403	169,403
Real and personal property, net	<u>20,938,154</u>	<u>20,118,858</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 24,132,919</u></u>	<u><u>\$ 24,089,051</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

Liabilities		
Accounts payable and accrued expenses	\$ 2,043,827	\$ 1,838,218
Line of credit payable	2,001,746	-
Security deposits	236,804	267,414
Due to tenant-stockholders - real property tax abatements, net	351,893	713,168
Rents received in advance	75,141	109,299
Security deposits payable - commercial tenants	169,403	169,403
Mortgage payable, net	<u>23,322,845</u>	<u>22,643,438</u>
Total Liabilities	<u>28,201,659</u>	<u>25,740,940</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	7,253,778	6,649,404
Stockholders' deficit	(15,885,418)	(12,017,039)
Less: Treasury stock, at cost - 0 and 46.875 shares at June 30, 2016 and 2015, respectively	<u>(3,038)</u>	<u>(850,192)</u>
Total Stockholders' Deficit	<u>(4,068,740)</u>	<u>(1,651,889)</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<u><u>\$ 24,132,919</u></u>	<u><u>\$ 24,089,051</u></u>

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

**Statements of Revenues and Expenses**  
**and Accumulated Deficit**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Carrying charges - apartments - net of tax abatements (including electricity and sublet fees)	\$ 15,033,172	\$ 14,365,408
Apartment resale fees	3,636,950	6,816,230
Commercial rent - store and offices (including electricity)	2,119,218	1,700,472
Parking rent, net of parking expenses	696,850	699,615
Laundry room	126,000	126,000
Other income	505,738	523,960
	<u>22,117,928</u>	<u>24,231,685</u>
<b>EXPENSES</b>		
Real estate taxes	7,022,341	5,942,560
Utilities and fuel	4,394,104	4,805,685
Labor	2,885,081	2,702,879
Payroll overhead	1,636,372	1,494,840
Repairs and maintenance	3,122,593	2,795,221
Management	1,022,947	1,016,416
Security guards	707,165	687,206
Mortgage interest (including amortization of deferred financing costs of \$639,897 and \$55,428 at 6/30/16 and 6/30/15, respectively)	2,004,577	995,428
Other interest	12,528	-
Insurance	1,111,803	1,108,533
Legal and accounting (net of insurance proceeds of \$332,126 for reimbursement of legal fees as of 6/30/15)	270,013	800,247
State and city corporation taxes	142,893	127,200
Senior care	57,200	39,200
Website	14,944	8,564
Bad debt expense	33,000	37,000
Conduit	13,937	13,162
	<u>24,451,498</u>	<u>22,574,141</u>
<b>(EXCESS OF EXPENSES OVER REVENUES) / EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION AND AMORTIZATION</b>	(2,333,570)	1,657,544
Depreciation	1,527,982	1,425,152
Amortization	6,827	6,827
<b>(EXCESS OF EXPENSES OVER REVENUES) / EXCESS OF REVENUES OVER EXPENSES</b>	(3,868,379)	225,565
<b>ACCUMULATED DEFECIT - Beginning of Year</b>	<u>(12,017,039)</u>	<u>(12,242,604)</u>
<b>ACCUMULATED DEFECIT - End of Year</b>	<u>\$ (15,885,418)</u>	<u>\$ (12,017,039)</u>

See Notes to Financial Statements.

**EAST RIVER HOUSING CORPORATION**  
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**Statement of Changes in Stockholders Deficit**  
**For the Years Ended June 30, 2016 and 2015**

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Stockholders' Deficit</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance - July 1, 2014	\$ 4,565,938	\$ 6,649,404	\$ (12,242,604)	\$ -	\$ (1,027,262)
Prior year additions	-	-	-	(850,192)	(850,192)
Prior year subtractions	-	-	-	-	-
Net loss- 6/30/15 year end	<u>-</u>	<u>-</u>	<u>225,565</u>	<u>-</u>	<u>225,565</u>
Balance - July 1, 2015	4,565,938	6,649,404	(12,017,039)	(850,192)	(1,651,889)
Current year additions	-	604,374	-	-	604,374
Current year subtractions	-	-	-	847,154	847,154
Net loss - 6/30/16 year end	<u>-</u>	<u>-</u>	<u>(3,868,379)</u>	<u>-</u>	<u>(3,868,379)</u>
Balance - June 30, 2016	<u>\$ 4,565,938</u>	<u>\$ 7,253,778</u>	<u>\$ (15,885,418)</u>	<u>\$ (3,038)</u>	<u>\$ (4,068,740)</u>

**EAST RIVER HOUSING CORPORATION**  
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**Statements of Cash Flows**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
(Excess of expenses over revenues) / Excess of revenues over expenses	\$ (3,868,379)	\$ 225,565
Adjustments to reconcile (excess of expenses over revenues) / excess of revenues over expenses to net cash (used in) provided by operating activities:		
Depreciation	1,527,982	1,425,152
Amortization	6,827	6,827
Amortization of deferred financing costs	639,897	55,428
Bad debt expense	33,000	37,000
Changes in operating assets and liabilities:		
Receivables: Tenant-stockholders	(3,364)	59,563
Receivables: Commercial tenants, net	(357,173)	(69,690)
Receivables: Other	97,000	(172,967)
Receivables: Hillman Housing Corporation (affiliate)	(166,033)	(22,747)
Prepaid expenses and other assets, net	(232,277)	34,760
Security deposits - vendors	49,954	-
Accounts payable and accrued expenses	205,611	272,206
Security deposits	(30,610)	(5,883)
Due to tenant-stockholders - real property tax abatements, net	(361,275)	256,415
Rents received in advance	(34,158)	31,025
Net Cash (Used in) Provided by Operating Activities	<u>(2,492,998)</u>	<u>2,132,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for real and personal property	<u>(2,347,280)</u>	<u>(1,098,500)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Mortgage refinance proceeds	23,500,000	-
Repayment of mortgage principal	(23,500,000)	-
Proceeds from line of credit	2,001,746	-
Payments of deferred financing costs	(195,490)	(239,591)
Refund of prior year deposit of deferred financing costs	235,000	-
Sale of treasury stock	847,154	-
Purchase of treasury stock	-	(850,192)
Additional paid in capital	604,374	-
Net Cash Provided by (Used in) Financing Activities	<u>3,492,784</u>	<u>(1,089,783)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(1,347,494)</u>	<u>(55,629)</u>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<u>3,016,169</u>	<u>3,071,798</u>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<u><u>\$ 1,668,675</u></u>	<u><u>\$ 3,016,169</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>		
Cash paid during the year for:		
Interest	\$ 1,377,208	\$ 940,000
Income taxes	<u>\$ 135,430</u>	<u>\$ 138,034</u>
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES :</b>		
Fully depreciated real and personal property written off	<u>\$ 176,178</u>	<u>\$ 459,641</u>
Fully amortized deferred financing costs written off	<u>\$ 616,971</u>	<u>\$ -</u>

See Notes to Financial Statements.



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

**Notes to Financial Statements**

**NOTE 1: ORGANIZATION**

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 owns 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 stockholders of the Cooperative.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

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, 2016 and 2015, common expenses of \$3,356,204 and \$3,530,627, respectively, were allocated to Hillman.

**EAST RIVER HOUSING CORPORATION  
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**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Management and Allocated Expenses (continued)

The Cooperative operates a heat and hot water facility ("Boiler Plant"), which supplies steam service to Hillman and Amalgamated Dwellings, Inc. ("ADI"), another cooperative. 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. Hillman is allocated 26.02% of the Boiler Plant costs. The Agreement expires on September 15, 2031, unless further extended or terminated earlier, as provided for in the Agreement.

Real and Personal Property

Real and personal property is stated at cost less accumulated depreciation, except for land which is carried at cost. 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. Significant renovations or improvements that extend the life of the real estate are capitalized. Replacements and betterments are capitalized. Expenditures for minor replacements, maintenance, and repairs are charged to operations. 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.

Concentration of Credit Risk

Financial instruments that are potentially subject to credit risk include cash accounts held with financial institutions. The Federal Deposit Insurance Corporation insures certain of the Cooperative's bank accounts up to a maximum of \$250,000 in each bank. From time to time, the Cooperative maintains cash balances at institutions that are in excess of the federally insured amounts. Cash deposits of approximately \$2,102,000 and \$2,378,000 exceeded the federally insured limit at June 30, 2016 and 2015, respectively.

Revenue Recognition

Revenue from stockholders (residential units) 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 and are classified as rents received in advance on the balance sheet.

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 stockholders' accounts.

Apartment resale fees are recognized as revenue when the closing of the apartment sale transaction occurs.



**EAST RIVER HOUSING CORPORATION  
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**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cash and Cash Equivalents

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

Security Deposits - Commercial tenants

Included in security deposits for commercial tenants are any payments of money, including the final month's rent paid in advance, which is given to the Cooperative by the commercial tenants in order to protect the Cooperative against non-payment of rent, damage due to breach of the lease or damage to the leased premises, common areas major appliances and furnishings.

Receivables

Accounts receivable consist of stockholder rent receivables which are recorded at the invoice amount and do not bear interest. The Cooperative believes that all receivables owed by stockholders are fully collectible and no allowance for doubtful accounts is required as of June 30, 2016 and 2015.

Commercial receivables 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, 2016 and 2015, the allowance for doubtful accounts for commercial receivables amounted to \$70,000 and \$37,000, respectively.

Deferred costs

J-51 consulting costs are included in prepaid expenses and other assets on the balance sheet. These costs are being amortized using the straight-line method over the period of the corresponding J-51 abatements. Amortization expense for each of the years ended June 30, 2016 and 2015 was \$6,827. Estimated future amortization expense of the J-51 consulting costs for each of the next 3 years is \$6,827. The final year of amortization expense of the J-51 costs will be the June 30, 2020 year, which will have \$750.

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. Such amounts are recognized as revenue for financial reporting purposes. 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.

**EAST RIVER HOUSING CORPORATION  
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**Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Reclassifications

Certain amounts in the prior year balance sheet, statement of revenues and expenses and accumulated deficit and cash flows have been reclassified for comparative purposes to conform to their presentation in the current year financial statements.

**NOTE 3: REAL AND PERSONAL PROPERTY**

Real and Personal Property

The following is a summary of the components of real and personal property:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 1,723,024	\$ 1,723,024
Buildings	18,283,505	18,283,505
Building improvements	31,915,922	29,911,537
Furniture and equipment	2,955,693	2,791,261
Parking lot improvements	<u>432,267</u>	<u>429,983</u>
	55,310,411	53,139,310
Less : accumulated depreciation	<u>( 34,372,257)</u>	<u>( 33,020,452)</u>
	<u>\$ 20,938,154</u>	<u>\$ 20,118,858</u>

**NOTE 4: STOCKHOLDER LOANS**

As part of the reconstitution in 1997 (Note 1), the Cooperative instituted a Substitute SCRIE Program to provide benefits to all 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 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 stockholder, which is repayable only upon the sale or transfer of the shares of stock and accompanying proprietary lease owned by the stockholder.

The loans do not bear interest. A participating 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, 2016 and 2015, the outstanding loans to stockholders under the Substitute SCRIE Program, which are included in receivables from stockholders, were approximately \$136,000 and \$127,000, respectively.



**EAST RIVER HOUSING CORPORATION  
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**Notes to Financial Statements**

**NOTE 5: DUE TO STOCKHOLDERS – REAL PROPERTY TAX ABATEMENTS**

The Cooperative receives the benefit of certain real property tax abatements (STAR, SCRIE and Veteran) (the "Abatements") earned by certain stockholders who are entitled to these benefits. The Cooperative applies these Abatements to reduce the benefitting stockholders' monthly carrying charges over a ten month period from March to December. As of June 30, 2016 and 2015, Abatements that will be applied to future monthly carrying charges amounted to \$351,893 and \$713,168, respectively.

**NOTE 6: MORTGAGE LOAN, NET AND LINE OF CREDIT 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; pay for closing costs associated with the refinancing; and to provide funds for capital projects.

The Mortgage required 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 ("FHLBNY") 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.

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 principal amount, plus any accrued interest thereon.

The Cooperative had the 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.

At June 30, 2015, the outstanding principal balance of the mortgage was \$23,500,000.

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



**EAST RIVER HOUSING CORPORATION**  
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**Notes to Financial Statements**

**NOTE 6: MORTGAGE LOAN, NET AND LINE OF CREDIT PAYABLE (continued)**

On July 29, 2015, the existing mortgage referred to above was paid in full using the \$23,500,000 of proceeds the Cooperative obtained in a refinancing with NYCB. The new mortgage note requires monthly payments of interest only, at a rate of 3.50% per annum and matures on August 1, 2023, at which time, the entire principal balance is due. The Cooperative has an option to extend the term to July 31, 2028. The interest rate during the extension period, will be equal to the sum of the FHLBNY Index plus 300 basis points, rounded up to the nearest one-eighth of one percentage point (0.125%). In no event will the fixed interest rate be fixed lower than 3.50%. The Cooperative has the option once in each year to make a single prepayment of up to \$2,000,000, without penalty. The note can be prepaid in full subject to a prepayment premium.

Also on July 29, 2015, the Cooperative also obtained a \$5,000,000 line of credit ("LOC"). The interest rate on the LOC shall be adjusted daily to a rate which is equal to the sum of the highest prime rate as published in The New York Times each day, plus 100 basis points, with a minimum interest rate of 4.25% and a maximum interest rate of 16%, per annum. The LOC expires on August 1, 2023. The outstanding balance on the LOC at June 30, 2016 was \$2,001,746. Interest expense on the LOC totaled \$56,839 during the year ended June 30, 2016.

The Cooperative must meet certain debt covenants as defined in the LOC. The Cooperative was in compliance with the debt covenants at June 30, 2016 and for the year then ended.

At June 30, 2016, mortgage loan, net is comprised of the following:

Mortgage loan	\$ 23,500,000
Unamortized deferred financing costs	<u>( 177,155)</u>
	<u>\$ 23,322,845</u>

The Cooperative adopted FASB ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, on January 1, 2016. ASU 2015-03 amended the presentation guidance by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the issuance of ASU 2015-03, deferred financing costs were presented as an asset in the accompanying balance sheet and included with prepaid expenses and other assets. As shown in the table below and pursuant to the guidance in ASU 2015-03, the Cooperative has reclassified unamortized deferred financing costs associated with its debt obligation in the Cooperative's previously reported balance sheet at June 30, 2015 as follows:

	As previously reported (June 30, 2015)	Reclassifications	As Adjusted (June 30, 2015)
Deferred financing costs	\$ 856,562	\$(856,562)	\$ -
Mortgage loan, net	\$23,500,000	\$ 856,562	\$22,643,438

**EAST RIVER HOUSING CORPORATION  
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**Notes to Financial Statements**

**NOTE 7: 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. Any 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 stockholders' deficit.

During the years ended June 30, 2016 and 2015, respectively, the Cooperative purchased 56.250 shares of treasury stock and 46.875 shares of treasury stock, for a total of 4 apartments. During the year ended June 30, 2016, all treasury stock owned by the Cooperative, totaling 103.125 shares and 4 apartments, were sold. The sales resulted in \$604,375 being recorded as additional paid in capital. There was no treasury stock remaining owned by the Cooperative at June 30, 2016. At June 30, 2016, the balance in treasury stock represents amounts paid for a potential purchase of shares in the subsequent year.

**NOTE 8: 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, 2016, the total leasable commercial space of approximately 43,600 square feet was occupied by 29 tenants, including two tenants that occupied approximately 50% of the total leasable area. As of June 30, 2016, only 10 tenants out of the total 29 commercial tenants have written lease agreements. The remaining tenants are occupying their space on a month to month basis.

Commercial rental income, including electricity and real estate taxes, amounted to \$2,119,218 and \$1,700,472 for the years ended June 30, 2016 and 2015, respectively.

Commercial tenant leases are classified as operating leases with varying expiration dates through 2035. These leases provide for minimum rentals together with tenant reimbursements of real estate taxes and certain other operating expenses.

The aggregate minimum future rental receipts, excluding tenant reimbursements on noncancellable operating leases in effect at June 30, 2016, are as follows:

**For The Years  
Ending June 30,**

2017	\$ 1,246,000
2018	1,179,000
2019	1,195,000
2020	1,216,000
2021	1,228,000
Thereafter	<u>6,998,000</u>
	<u>\$ 13,062,000</u>



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

**Notes to Financial Statements**

**NOTE 8: CARRYING CHARGES AND RENTS – APARTMENTS AND COMMERCIAL SPACE  
(continued)**

For the years ended June 30, 2016 and 2015, two tenants accounted for more than 10% of the total commercial rental income. One of these tenants accounted for approximately 60% of the commercial tenants accounts receivable at June 30, 2016.

**NOTE 9: APARTMENT RESALE FEES**

The Cooperative assesses its stockholders fees on the resale of apartments. Effective October 1, 2008, when shares are sold by the first-time stockholder of occupancy, the rate charged for flip tax is 20%. The second and any subsequent sales of the same apartment are charged flip tax at a rate of 5%.

For the year ended June 30, 2016, there were 19 first-time sales of apartments and 19 second-time sales of apartments, resulting in apartment resale fees of \$3,636,950.

For the year ended June 30, 2015, there were 48 first-time sales of apartments and 31 second-time sales of apartments, resulting in apartment resale fees of \$6,816,230.

**NOTE 10: 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 11: MULTI-EMPLOYER PENSION PLANS**

A majority of the Cooperative's direct labor is supplied by union employees. The Cooperative contributes to the Building Service 32BJ Pension Fund ("32 BJ Plan") and The International Union of Operating Engineers ("IUOE") Local 30 Pension Fund ("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 also participates in the National Rural Electric Cooperative Association Retirement Security Plan ("NRECA"), a defined benefit pension plan that is treated as a multi-employer plan for accounting purposes. 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  
(A COOPERATIVE HOUSING CORPORATION)**

**Notes to Financial Statements**

**NOTE 11: MULTI-EMPLOYER PENSION PLANS (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, 2015. Because certain provisions of the PPA do not apply to the NRECA Plan, FIP/RP Status and surcharges imposed are not applicable.

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.

The Cooperative's contributions to the three Plans above, for the years ended June 30, 2016 and 2015, were \$369,000 and \$343,000, respectively.

The Cooperative has not contributed more than 5% of the total contribution to the Plan.

The Cooperative's participation in the Plans are outlined in the tables below:

Pension Plan	Building Service 32BJ Pension Fund
Employer Identification Number	13-1879376
Pension Plan Number	001
PPA Zone Status Plan Years Beginning	
July 1, 2014 and 2015	Red
FIP/RP Status Implemented	Yes
Surcharge Imposed	None
Expiration Date of Collective Bargaining	
Agreements	April 20, 2018

Pension Plan	IUOE Local 30 Pension Fund
Employer Identification Number	51-6045848
Pension Plan Number	001
PPA Zone Status Plan Years Beginning	
January 1, 2015 and 2016	Green
FIP/RP Status Implemented	N/A
Surcharge Imposed	None
Expiration Date of Collective Bargaining	
Agreements	April 30, 2018



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

**Notes to Financial Statements**

**NOTE 12: OTHER COMMITMENTS AND CONTINGENCIES**

The Cooperative might be subject to pending legal proceedings and litigation incidental to its business. Management believes the maximum liability that may result from any adverse determination from these legal actions is covered by the amount of insurance available under the Cooperative's policy and therefore, such legal actions will not be material to the Cooperative's financial statements.

The Cooperative had a dual-fuel service contract with Consolidated Edison Company of New York, Inc. ("Con Edison") to purchase a minimum of 2,140,860 therms of gas at \$0.07 a therm for a three-year period that expired on January 31, 2016. Commencing February 1, 2016 and effective for a three-year period, the Cooperative renewed their contract with Con Edison for a cost of \$0.08 per therm for the first 500,000 therms consumed in a month and \$0.07 per therm for the volume above 500,000 therms per month.

As described in Note 2, the Cooperative has entered into agreements to provide certain services to Hillman Housing Corporation and Amalgamated Dwellings, Inc.

**NOTE 13: INCOME TAXES**

The Cooperative has approximately \$22,700,000 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, 2016, from patronage and nonpatronage activities. These NOLS expire in tax years ended June 30, 2020 through 2036. 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. For the years ended June 30, 2016 and 2015, the Cooperative's state and city corporation taxes were based on the Cooperative's net capital base and amounted to \$143,000 and \$127,200, respectively.

**NOTE 14: LITIGATION**

The Cooperative has commenced legal proceedings against several stockholders seeking to recover unpaid maintenance charges owed on the respective apartments.

While the outcome of this matter cannot be determined with certainty at this time, the Cooperative does not believe this will have a material adverse effect on the balance sheet or operations of the Cooperative.

**NOTE 15: SUBSEQUENT EVENTS**

Management has evaluated events subsequent to the date of the balance sheet through March 17, 2017, the date the financial statements were available to be issued.



## **SUPPLEMENTAL INFORMATION**

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**M A R K S P A N E T H**  
ACCOUNTANTS & ADVISORS

## Independent Auditors' Report on Supplemental Information

To the 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, 2016 and 2015, and our report thereon dated March 17, 2017, 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 18 and 19, 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.

*Marks Paneth LLP*

Woodbury, New York  
March 17, 2017

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

**SUPPLEMENTAL INFORMATION**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Schedule of Prepaid Expenses and Other Assets, Net</b>		
Unexpired insurance	\$ 157,546	\$ 52,044
J-51 consulting fees, net of amortization	21,231	28,058
Fuel inventory	81,816	99,243
Real estate taxes	143,552	-
Federal corporate taxes	2,000	-
Security contract	32,941	34,291
	<u>\$ 439,086</u>	<u>\$ 213,636</u>
<b>Schedule of Other Income</b>		
Interest income	\$ 1,623	\$ 6,856
Late fees	39,489	44,358
Fitness room income, net of fitness expenses	162,026	178,154
Storage and bike room	158,017	147,049
Miscellaneous	144,583	147,543
	<u>\$ 505,738</u>	<u>\$ 523,960</u>
<b>Schedule of Utilities and Fuel Expenses</b>		
Electricity	\$ 2,151,246	\$ 2,201,080
Water and sewer	1,158,498	1,085,101
Fuel oil	65,827	345,355
Natural gas	962,084	1,105,100
Gas	56,449	69,049
	<u>\$ 4,394,104</u>	<u>\$ 4,805,685</u>

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

**SUPPLEMENTAL INFORMATION  
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Schedule of Labor Expenses</b>		
Porters	\$ 1,430,563	\$ 1,374,771
Handymen	648,584	570,913
Boiler room	685,910	644,718
Playroom cleaning service	12,794	8,395
Supervisors	107,230	104,082
	<u>\$ 2,885,081</u>	<u>\$ 2,702,879</u>
<b>Schedule of Payroll Overhead</b>		
Union pension and welfare funds	\$ 1,070,114	\$ 944,246
Payroll taxes	378,536	369,486
Group life and major medical insurance	123,741	119,514
Retirement expenses	43,736	41,746
Payroll services	20,245	19,848
	<u>\$ 1,636,372</u>	<u>\$ 1,494,840</u>
<b>Schedule of Repairs and Maintenance Expenses</b>		
Building and apartment repairs	\$ 441,047	\$ 254,335
Janitorial supplies	443,614	386,475
Elevator	320,325	307,226
Gardening	283,180	161,376
Plumbing	309,943	308,166
Heating and air conditioning	261,485	194,974
Painting and plastering	173,040	154,153
Electrical	251,253	367,048
Exterminating	226,288	191,788
Vehicle	48,026	37,045
Security	133,668	100,473
Compactors	379	35,129
Uniforms	17,382	15,511
Claims paid	182,599	151,739
Miscellaneous	30,364	129,783
	<u>\$ 3,122,593</u>	<u>\$ 2,795,221</u>
<b>Schedule of Management Expenses</b>		
Salaries	\$ 584,223	\$ 576,980
Telephone / Communication	79,658	70,460
Stationery and printing	19,439	18,827
Postage	16,035	16,382
Office Supplies	35,556	24,046
Professional fees	232,266	262,667
Miscellaneous	55,770	47,054
	<u>\$ 1,022,947</u>	<u>\$ 1,016,416</u>