# EAST RIVER HOUSING CORPORATION

530 GRAND STREET
NEW YORK, N.Y. 10002

TEL (212) 677-5858
FAX (212) 979-6808
EMAIL: CONTACT@COOPVILLAGE.COOP

April 4, 2013

TO: All Shareholders/ East River Housing Corp.

FROM: Harold Jacob, General Manager

RE: East River Housing's Annual Report

The hard copy of the Annual Report ending June 30, 2012, which is currently available on our website will also be distributed on Friday, April 5, 2013. Since the posting of our previous numbers, the Board of Directors has authorized a 6-month review ending December 31, 2012, which will be downloadable from our website, as of today.

There have been two subsequent events to the December 31st financial review. Amalgamated Dwellings has paid up their debt and we have paid back $1.5 million of our mortgage, which was not reflected in the 6-month review.

Copies of this report, as stated will be available on our site at the following address http://coopvillage.coop/eastRiverHC/erNewsDocs/ and will be available at the Annual Meeting.

Thank you.

Sincerely,

Harold Jacob
General Manager

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

Financial Statements
For the Six Months Ended
December 31, 2012
(Together with Independent
Accountants' Review Report)

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

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

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**For the Six Months Ended December 31, 2012**

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

## Independent Accountants' Review Report

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

We have reviewed the accompanying Balance Sheet of East River Housing Corporation (the "Cooperative") for the six months ended December 31, 2012 and the related statements of Revenues and Expenses and Accumulated Deficit, and Cash Flows for the period then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made primarily for the purpose of expressing a conclusion that there are no material modifications that should be made to the financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The supplemental information included on pages 13 and 14 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we did not become aware of any material modifications that should be made to such information.

Management has omitted supplementary information about future major repairs and replacements of common property 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. The results of our review of the basic financial statements are not affected by that missing information.

Marks Paneth & Shron LLP

New York, New York
April 4, 2013

685 THIRD AVENUE
NEW YORK, NY 10017
P. 212.503.8800 F. 212.370.3759
WWW.MARKSPANETH.COM

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

## Balance Sheet

## December 31, 2012

### ASSETS

| | | |
|---|---|---|
| Cash and cash equivalents | $ | 5,013,543 |
| Receivables: | | |
| Tenant-stockholders | | 177,172 |
| Commercial tenants | | 136,113 |
| Due from Amalgamated Dwellings, Inc | | 758,709 |
| Other- real estate tax refund | | 45,230 |
| Total receivables | | 1,117,224 |
| Prepaid expenses and other assets, net | | 1,201,489 |
| Security deposits - vendors | | 204,712 |
| Security deposits - commercial tenants | | 167,603 |
| Real and personal property, net | | 20,888,737 |
| **TOTAL ASSETS** | $ | 28,593,308 |

### LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|---|---|---|
| Liabilities | | |
| Accounts payable and accrued expenses | $ | 2,332,935 |
| Insurance premium financing | | 262,235 |
| Retainage payable - Local Law 11 work and boiler room conversion | | 589,200 |
| Due to Hillman Housing Corporation | | 47,665 |
| Due to tenant-stockholders - abatements | | 145,211 |
| Rents received in advance | | 48,506 |
| Security deposits payable - commercial tenants | | 167,603 |
| Mortgage payable | | 25,000,000 |
| Total Liabilities | | 28,593,355 |
| Commitment and Contingencies | | |
| Stockholders' Equity | | |
| Common stock - $100 par value, authorized 50,000 shares, 45,659.375 shares issued and outstanding | | 4,565,938 |
| Additional paid-in capital | | 6,615,529 |
| Accumulated deficit | | (10,838,135) |
| Less: Treasury stock, at cost - 25 shares | | (343,379) |
| Total Stockholders' Equity (Deficit) | | (47) |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ | 28,593,308 |

See accompanying notes and independent accountants' review report.

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

## Statement of Revenues and Expenses and Accumulated Deficit

## For the Six Months Ended December 31, 2012

| | |
|---|---|
| Revenues | |
| Carrying charges - apartments (including electricity and gas) | $ 7,451,047 |
| Apartment resale fees | 2,714,734 |
| Commercial rent - store and offices (including electricity) | 796,901 |
| Parking rent, net of related expenses | 320,946 |
| Laundry room | 63,000 |
| Other income | 279,632 |
| **Total Revenues** | 11,626,260 |
| Expenses | |
| Real estate taxes | 3,119,462 |
| Utilities and fuel | 2,488,808 |
| Labor | 1,323,352 |
| Payroll overhead | 665,774 |
| Repairs and maintenance | 1,303,241 |
| Management | 631,181 |
| Security guards | 332,973 |
| Mortgage and other interest | 526,460 |
| Insurance | 382,469 |
| Legal and accounting | 309,206 |
| State and city corporation taxes | 60,000 |
| Senior care | 19,600 |
| Website | 825 |
| Conduit | 6,306 |
| **Total Expenses** | 11,169,657 |
| Revenues in Excess of Expenses Before Depreciation and Amortization | 456,603 |
| Depreciation | 605,319 |
| Amortization | 31,128 |
| Expenses in Excess of Revenues | (179,844) |
| Accumulated Deficit - July 1, 2012 | (10,658,291) |
| **Accumulated Deficit - December 31, 2012** | $ (10,838,135) |

See accompanying notes and independent accountants' review report.

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

## Statement of Cash Flows

## For the Six Months Ended December 31, 2012

| | |
|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | |
| Expenses in excess of revenues | $ (179,844) |
| Adjustments to reconcile expenses in excess of revenues to net cash provided by operating activities : | |
| Depreciation | 605,319 |
| Amortization | 31,128 |
| Changes in assets and liabilities : | |
| Receivables | (176,468) |
| Prepaid expenses and other assets, net | 305,008 |
| Due to Hillman Housing Corporation | (32,756) |
| Accounts payable and accrued expenses | 44,158 |
| Due to tenant-stockholders - abatements | 20,699 |
| Rents received in advance | (4,144) |
| Total adjustments | 792,944 |
| **Net Cash Provided by Operating Activities** | 613,100 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | |
| Expenditures for capital improvements | (2,135,961) |
| **Net Cash (Used in) Investing Activities** | (2,135,961) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | |
| Insurance premium financing | (314,684) |
| Purchase of treasury stock | (343,379) |
| **Net Cash (Used In) Financing Activities** | (658,063) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | (2,180,924) |
| **CASH AND CASH EQUIVALENTS** - July 1, 2012 | 7,194,467 |
| **CASH AND CASH EQUIVALENTS** - December 31, 2012 | $ 5,013,543 |
| **SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:** | |
| Cash Paid During the Year for: | |
| Interest | $ 526,460 |
| Taxes | $ 59,460 |
| **NON-CASH INVESTING AND FINANCING ACTIVITIES :** | |
| Accrued real and personal property additions | $ 589,200 |

See accompanying notes and independent accountants' review report.

**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 six months ended December 31, 2012 ("Period"), common expenses of $1,758,617 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 December 31, 2012, the FDIC insurance limit for an interest-bearing transaction account is $250,000 and a non-interest bearing transaction account has unlimited insurance. At December 31, 2012, substantially all of the Cooperative's cash and cash equivalents were on deposit with four banks, of which $5,763 was 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 December 31, 2012.

On November 29, 2012, the Cooperative and Amalgamated Dwellings, Inc. ("ADI"), an unrelated company that owns a building which the Cooperative supplies with steam service, 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.

Pursuant to the Agreement, payment of amounts due to the Cooperative shall commence on the closing date of ADI's refinancing (which occurred on January 30, 2013) or on May 31, 2013 ("Commencement Date"), whichever occurs sooner. The amounts due for the supply of steam services accrued on 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. As of December 31, 2012, $758,709 was due from ADI.

On January 31, 2013, the Agreement was amended to provide that no additional Boiler Plant costs incurred after January 31, 2013 would be due or allocated to ADI. On January 31, 2013, ADI paid, in full, the Boiler Plant and steam supply costs allocated to them through January 31, 2013 and December 31, 2012, respectively.

Real and Personal Property

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

| | |
|---|---|
| Land | $ 1,723,024 |
| Buildings | 18,283,505 |
| Building improvements | 21,518,910 |
| Construction in progress : | |
| Local Law 11 work | 2,509,824 |
| Furniture and equipment | 6,588,924 |
| Parking lot improvements | 420,257 |
| | 51,044,444 |
| Less: accumulated depreciation | 30,155,707 |
| | $ 20,888,737 |

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 six months ended December 31, 2012 was $605,319.

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

**Notes to Financial Statements**

**NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (continued)**

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 Period was $31,128.

Amortization of deferred financing and J-51 consulting costs for each of the next five years is estimated to be $62,255 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 June 30, 2010.

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.

Subsequent Events

Management has evaluated events subsequent to the date of the balance sheet through April 4, 2013, the date the financial statements were available to be issued.

**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.

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

**Notes to Financial Statements**

**NOTE 2: TENANT - STOCKHOLDER LOANS (continued)**

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 December 31, 2012, the outstanding loans to tenant-stockholders under the Substitute SCRIE Program, which are included in receivables from tenant-stockholders, was approximately $172,000.

**NOTE 3: MORTGAGE PAYABLE**

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 an existing mortgage and loans payable; pay for closing costs associated with the refinancing; and to provide funds for capital projects.

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

| Period | Rate |
|---|---|
| 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 Period, the Cooperative purchased 25 shares of treasury stock from tenant-stockholders for $343,379. As of December 31, 2012, the Cooperative held 25 shares of treasury stock which has been allocated to one apartment.

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

**Notes to Financial Statements**

**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.

The Cooperative leases space to commercial tenants pursuant to leases. As of December 31, 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 December 31, 2012, excluding charges for electricity and real estate taxes, are as follows:

| For The Year Ending June 30 | |
|---|---|
| 2013 | $ 554,897 |
| 2014 | 1,018,199 |
| 2015 | 1,043,844 |
| 2016 | 908,653 |
| 2017 | 554,251 |
| Thereafter | 2,228,794 |
| | $ 6,308,638 |

**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.

During the Period, there were 30 first-time sales of apartments and 9 second-time sales of apartments, resulting in apartment resale fees of $2,714,734.

**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 AND WELFARE**

The Cooperative's direct labor is supplied primarily by union employees. The Company contributes to 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 pensions. The Plans provides 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 risks of participating in multiemployer pension plans are different from single-employer plans in that: assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; if a participating employer stops contributing to the either Plan, the unfunded obligations of either Plan may be borne by the remaining participating employers; and if the Cooperative stops participating in a multiemployer plan, the Cooperative may be required to pay the Plan an amount based on the underfunded status of the Plan, referred to as a withdrawal liability. The Cooperative has no plans to withdraw from either Plan.

The Cooperative's participation in the 32 BJ Plan is outlined in the table below. The Pension Protection Act ("PPA") Zone Status presented in the Cooperative's financial statement is for the 32 BJ Plan year ended June 30, 2011. The Zone Status is based on information obtained from the 32 BJ Plan and is certified by the 32 BJ Plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded.

Based on the 32 BJ Plan's annual report on Form 5500, the 32 BJ Plan was 55% funded for its plan year beginning July 1, 2010. 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 audited financial statements of the 32 BJ Plan, on September 28, 2011 the actuary certified that for the 32 BJ Plan year beginning July 1, 2010, the 32 BJ Plan is in critical status under the PPA. The significance of entering critical status is that the 32 BJ Plan's Trustees are required by law to adopt a "rehabilitation plan," consistent with the requirements of the PPA, which is designed to improve the 32 BJ 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 32 BJ Plan year in which the 32 BJ Plan remains in critical status. Surcharges do not generate benefit accruals.

The Cooperative's contributions to the 32 BJ Plan and the Local 30 Plan for the six months ended December 31, 2012 was $143,518.

Beginning January 1, 2004, the Cooperatives' nonunion employees are covered by a multi-employer retirement plan. Charges to operations for contributions to this multi-employer retirement plan amounted to $8,651 for the six months ended December 31, 2012.

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

## Notes to Financial Statements

### NOTE 8: PENSION AND WELFARE (continued)

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

| Pension Plan | Employer Identification Number | Pension Plan Number | PPA Zone Status at July 1, 2010 | FIP/RP Status Pending/ Implemented | Surcharge Imposed | Expiration Date of Collective Bargaining Agreements |
|---|---|---|---|---|---|---|
| Building Service 32BJ Pension Fund | 13-5605354 | 1 | Red | Yes | Yes | April 20, 2014 |

### 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 January 30, 2012. 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.

On August 25, 2011, the Cooperative entered into a contract with Dynamic Energy Group Inc. ("Dynamic") in the amount of $5,146,342, including change orders, 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 December 31, 2012, amounting to $5,116,342, have allocated to Hillman, the Cooperative and ADI. (Note 1)

At December 31, 2012, the Cooperative incurred $3,417,973 of costs related to its share of the Dynamic contract, including $362,029 of retainage which has been accrued and included in Retainage payable on the balance sheet at December 31, 2012. The Cooperative expects to complete the remaining work during the six months ended June 30, 2013.

On March 14, 2012, the Cooperative entered into a contract, including change orders, with AM&G Waterproofing LLC ("AM&G") in the amount of $2,585,282 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 December 31, 2012, the Cooperative incurred $2,271,710 of costs related to this contract, including $227,171 of retainage which has been accrued and included in Retainage payable on the balance sheet at December 31, 2012. The Cooperative expects to complete the remaining work during the six months ended June 30, 2013.

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

**Notes to Financial Statements**

## NOTE 10: INCOME TAXES

The Cooperative has approximately $15,279,000 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 June 30, 2010 (Note 1). Tax years ending prior to June 30, 2010, are still open to examination for the limited purpose of challenging net operating loss carryovers from those years. Charges to operations applicable to income tax expense amounted to $60,000 during the Period.

## NOTE 11: LITIGATION

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, beyond certain insurance deductibles which management does not believe are material, the Cooperative has adequate insurance coverage to cover these claims.

## SUPPLEMENTAL INFORMATION

# EAST RIVER HOUSING CORPORATION
# (A COOPERATIVE HOUSING CORPORATION)
# SUPPLEMENTAL INFORMATION

## For the Six Months Ended December 31, 2012

### Prepaid Expenses and Other Assets

| | | |
|---|---|---|
| Unexpired insurance | $ | 280,482 |
| Deferred financing costs, net | | 755,096 |
| J-51 consulting fees, net | | 45,126 |
| Fuel inventory | | 80,738 |
| Painting | | 16,622 |
| Security contract | | 15,106 |
| Conduit | | 6,306 |
| State and city corporation taxes | | 2,013 |
| | $ | 1,201,489 |

### Other Income

| | | |
|---|---|---|
| Real estate tax refund | $ | 52,289 |
| Interest income | | 3,798 |
| Late fees | | 26,310 |
| Fitness room income, net | | 87,208 |
| Miscellaneous | | 110,027 |
| | $ | 279,632 |

### Utilities and Fuel Expenses

| | | |
|---|---|---|
| Electricity | $ | 1,085,485 |
| Water and sewer | | 572,140 |
| Fuel oil | | 18,287 |
| Natural gas | | 787,502 |
| Gas | | 25,394 |
| | $ | 2,488,808 |

See independent accountants' review report.

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

**For the Six Months Ended December 31, 2012**

### Labor Expenses

| | | |
|---|---|---|
| | $ | 636,980 |
| Porters | | 300,771 |
| Handymen | | 337,878 |
| Boiler room | | 47,723 |
| Supervisors | $ | 1,323,352 |

### Payroll Overhead

| | | |
|---|---|---|
| Union labor and benefits | $ | 436,303 |
| Payroll taxes | | 158,172 |
| Group life and major medical insurance | | 54,182 |
| Non-union retirement expenses | | 8,651 |
| Payroll services | | 8,466 |
| | $ | 665,774 |

### Repairs and Maintenance Expenses

| | | |
|---|---|---|
| Apartment repairs | $ | 81,748 |
| Janitorial supplies | | 183,126 |
| Elevator | | 168,880 |
| Gardening | | 87,756 |
| Plumbing | | 195,783 |
| Heating and air conditioning | | 83,235 |
| Painting and plastering | | 95,777 |
| Electrical | | 98,337 |
| Exterminating | | 79,506 |
| Vehicle | | 13,830 |
| Security | | 79,688 |
| Compactors | | 1,926 |
| Uniforms | | 7,580 |
| Claims paid | | 121,375 |
| Miscellaneous | | 4,694 |
| | $ | 1,303,241 |

### Management Expenses

| | | |
|---|---|---|
| Salaries | $ | 270,877 |
| Telephone / Communication | | 32,669 |
| Stationery, printing and office supplies | | 22,501 |
| Professional fees | | 251,142 |
| Miscellaneous | | 53,992 |
| | $ | 631,181 |

See independent accountants' review report.