
**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

**Financial Statements
and Supplemental Information
Years Ended December 31, 2012 and 2011
(Together with Independent Auditors' Report)**



**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Table of Contents

	<u><i>Page</i></u>
Independent Auditors' Report	1 - 2
Financial Statements	
Balance Sheets - December 31, 2012 and 2011	3
Statements of Revenues and Expenses and Accumulated Deficit - For the Years Ended December 31, 2012 and 2011	4
Statements of Cash Flows - For the Years Ended December 31, 2012 and 2011	5
Notes to Financial Statements	6 – 14
Supplemental Information	
Independent Auditors' Report on Supplemental Information	16
Prepaid Expenses and Other Assets, Net	17
Other Income	17
Utilities and Fuel Expenses	17
Labor Expenses	18
Payroll Overhead	18
Repairs and Maintenance Expenses	18
Management Expenses	18

Independent Auditors' Report

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

We have audited the accompanying financial statements of Hillman Housing Corporation (the "Cooperative"), which comprise the balance sheets as of December 31, 2012 and 2011, 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.

Auditor's 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 auditor's 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 positions of the Cooperative as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

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 basic financial statements. Such missing information, although not a part of the basic financial statements, is required to be disclosed by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Mark Spaneth v. Shon LLP

New York, New York
June 4, 2013

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**HILLMAN HOUSING CORPORATION
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Balance Sheets

December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 1,598,453	\$ 2,561,971
Receivables:		
Tenant-stockholders	404,444	368,449
Commercial tenants	69,646	87,317
Due from East River Housing Corporation (affiliate)	89,820	43,156
Receivables - other	49,000	-
Total Receivables	<u>612,910</u>	<u>498,922</u>
Prepaid expenses and other assets, net	602,527	714,982
Real and personal property, net	<u>8,740,634</u>	<u>7,970,461</u>
TOTAL ASSETS	<u><u>\$ 11,554,524</u></u>	<u><u>\$ 11,746,336</u></u>

LIABILITIES AND STOCKHOLDERS' DEFICIT

Liabilities		
Accounts payable and accrued expenses	\$ 1,686,368	\$ 1,695,505
Rents received in advance	43,819	53,639
Security deposits payable - commercial tenants	175,120	175,120
Certificate of indebtedness	10,643	10,643
Mortgage payable	12,000,000	12,000,000
Total Liabilities	<u>13,915,950</u>	<u>13,934,907</u>
Commitment and Contingencies		
Stockholders' Deficit		
Common stock - \$100 par value, authorized 25,000 shares, 16,483.95 shares issued and outstanding	1,648,395	1,648,395
Additional paid-in capital	5,858,043	5,793,586
Accumulated deficit	(9,867,864)	(9,442,302)
Less: Treasury stock, at cost - 20.25 shares at December 31, 2011	-	(188,250)
Total Stockholders' Deficit	<u>(2,361,426)</u>	<u>(2,188,571)</u>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	<u><u>\$ 11,554,524</u></u>	<u><u>\$ 11,746,336</u></u>

See Notes to Financial Statements.

HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)

Statements of Revenues and Expenses
and Accumulated Deficit

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues		
Carrying charges - apartments (including electricity and gas)	\$ 7,664,600	\$ 7,516,227
Apartment resale fees	1,390,025	1,191,550
Commercial rent - store and offices (including electricity)	334,555	334,912
Parking rent, net of related expenses	538,737	535,575
Laundry Income	39,000	39,000
Other income	661,192	609,553
Total Revenues	<u>10,628,109</u>	<u>10,226,817</u>
Expenses		
Real estate taxes	3,127,921	2,882,038
Utilities and fuel	2,690,506	3,131,905
Labor	1,114,162	1,036,575
Payroll overhead	595,076	560,026
Repairs and maintenance	1,023,572	1,027,536
Management	405,107	419,812
Security guards	415,145	415,683
Mortgage and loan interest	490,121	416,265
Insurance	259,526	255,631
Legal and audit	280,204	371,648
State and city corporation taxes	62,800	60,750
Senior care	16,600	12,450
Website	3,413	2,840
Conduit	8,698	8,480
Total Expenses	<u>10,492,851</u>	<u>10,601,639</u>
Revenue (Deficiency of Revenues) Over Expenses Before Depreciation and Amortization	135,258	(374,822)
Depreciation	510,159	512,062
Amortization	<u>50,661</u>	<u>31,971</u>
Expenses in Excess of Revenues	(425,562)	(918,855)
Accumulated Deficit - Beginning of Year	<u>(9,442,302)</u>	<u>(8,523,447)</u>
Accumulated Deficit - End of Year	<u>\$ (9,867,864)</u>	<u>\$ (9,442,302)</u>

See Notes to Financial Statements.

HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)

Statements of Cash Flows

For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Expenses in excess of revenues	<u>\$ (425,562)</u>	<u>\$ (918,855)</u>
Adjustments to reconcile expenses in excess of revenues to net cash (used in) provided by operating activities :		
Depreciation	510,159	512,062
Amortization	50,661	31,971
Changes in assets and liabilities:		
Receivables :	(67,324)	203,012
Due from East River Housing Corporation	(46,664)	(90,656)
Prepaid expenses and other assets, net	61,794	(462,407)
Accounts payable and accrued expenses	(170,995)	399,689
Rents received in advance	<u>(9,820)</u>	<u>(25,829)</u>
Total adjustments	<u>327,811</u>	<u>567,842</u>
Net Cash Provided by (Used in) Operating Activities	<u>(97,751)</u>	<u>(351,013)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for capital improvements	<u>(1,118,474)</u>	<u>(776,509)</u>
Net Cash (Used in) Investing Activities	<u>(1,118,474)</u>	<u>(776,509)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage proceeds	-	12,000,000
Repayment of mortgage principal	-	(8,324,942)
Repayment of loans payable	-	(700,000)
Sale of treasury stock	252,707	321,540
Purchase of treasury stock	-	(452,060)
Sale of common stock	-	264,310
Net Cash Provided by Financing Activities	<u>252,707</u>	<u>3,108,848</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(963,518)	1,981,326
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,561,971</u>	<u>580,645</u>
CASH AND CASH EQUIVALENTS - end of year	<u><u>\$ 1,598,453</u></u>	<u><u>\$ 2,561,971</u></u>
SUPPLEMENTAL INFORMATION TO STATEMENT OF CASH FLOWS:		
Cash paid during the year for:		
Interest	<u>\$ 490,121</u>	<u>\$ 416,265</u>
Income taxes	<u>\$ 70,216</u>	<u>\$ 46,494</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Accrued real and personal property improvements	<u>\$ 161,858</u>	<u>\$ -</u>

See Accompanying Notes to Financial Statements.

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES

History of the Cooperative

Hillman Housing Corporation (the "Cooperative"), a cooperative housing corporation, was incorporated in the State of New York on November 5, 1945. The Cooperative is located in New York City and consists of residential apartments and commercial space.

Until February 6, 1997, the Cooperative 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 East River Housing Corporation ("East River"), 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 East River 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 December 31, 2012 and 2011, common expenses of \$4,915,300 and \$4,931,929, respectively, were allocated to the Cooperative.

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 a financial institution. Cash and cash equivalents may at times be in excess of the Federal Deposit Insurance Corporation ("FDIC") insurance limits. As of December 31, 2012 and 2011, the FDIC insurance limit for an interest-bearing transaction account is \$250,000 and a non-interest bearing transaction account has unlimited insurance. At December 31, 2012 and 2011, substantially all of the Cooperative's cash and cash equivalents were on deposit at one New York bank, of which \$5,763 and \$0, respectively, were uninsured.

**HILLMAN 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 East River 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 and 2011.

Real and Personal Property

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

	December 31,	
	2012	2011
Land	\$ 1,444,210	\$ 1,444,210
Buildings	7,681,798	7,681,798
Building improvements	13,223,529	11,989,742
Furniture and equipment	1,130,300	1,297,151
Parking lot improvements	169,621	169,621
	23,649,458	22,582,522
Less: Accumulated depreciation	14,908,824	14,612,061
	\$ 8,740,634	\$ 7,970,461

Depreciation of real and personal property is computed by various methods over the following estimated useful lives: buildings - 40 years, building and parking lot improvements – 15 to 39 years, and furniture and equipment – 5 to 7 years. Depreciation expense for the years ended December 31, 2012 and 2011 were \$510,159 and \$512,062, respectively.

On August 25, 2011, East River 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, East River and Amalgamated Dwellings, Inc. ("ADI"). The Boiler Plant costs incurred through December 31, 2012, were allocated to Hillman, East River and ADI at a rate of 26.02%, 66.23% and 7.75%, respectively.

The Boiler Plant upgrade was completed in July 2012. The Cooperative incurred approximately \$1,498,000 of costs related to its share of the Dynamic contract.

Deferred costs

Deferred financing and J-51 consulting costs, which are included in prepaid expenses and other assets, net, 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 December 31, 2012 and 2011 was \$50,661 and \$31,971, respectively.

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 1: OPERATIONS AND ACCOUNTING POLICIES (Continued)

Amortization of deferred financing and J-51 consulting costs for each of the next five years is estimated to be \$50,661 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 2009.

For the years ended December 31, 2012 and 2011, contributions to additional paid-in capital for income tax reporting purposes were \$0 and \$145,994, respectively, consisting only of mortgage amortization in 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Presentation

Certain amounts in the December 31, 2011 financial statements have been reclassified to conform to the current year presentation.

Subsequent Events

Management has evaluated, for potential recognition and disclosure, events subsequent to the date of the balance sheet through June 4, 2013, the date the financial statements were available to be issued.

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 2: TENANT-STOCKHOLDERS RECEIVABLES

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 December 31, 2012 and 2011, the outstanding loans to tenant-stockholders under the Substitute SCRIE Program, which are included in receivables from tenant-stockholders, were approximately \$36,000 and \$48,000, respectively.

NOTE 3: MORTGAGES AND LOANS PAYABLE

The Cooperative had an outstanding mortgage loan payable to Amalgamated Bank of New York ("ABNY") at a fixed interest rate of 4.4% per annum. The mortgage required monthly payments of principal and interest totaling \$34,512. The mortgage was set to mature on September 1, 2013. On September 15, 2011, the outstanding mortgage balance was \$5,817,632, at which time, the mortgage was fully satisfied using the proceeds of the First Mortgage discussed below.

The Cooperative had an unsecured term loan with ABNY at a fixed interest rate of 4.4% per annum. The loan required monthly payments of principal and interest totaling \$14,021. The loan was set to mature on September 1, 2013. On September 15, 2011, the outstanding loan balance was \$2,361,314, at which time, the loan was fully satisfied using the proceeds of the First Mortgage discussed below.

The Cooperative had an unsecured term loan with ABNY at a fixed interest rate of 2.25% per annum. The loan required monthly interest payments at a rate of 2.25% per annum. The loan was set to mature on October 31, 2012. On September 15, 2011, the outstanding loan balance was \$500,000 at which time, the loan was fully satisfied using the proceeds of the First Mortgage discussed below.

In connection with the early extinguishment of the mortgage and loans payable to ABNY, the Cooperative paid prepayment penalties amounting to \$81,390.

On September 15, 2011, the Cooperative obtained a first mortgage loan ("First Mortgage") from New York Community Bank ("NYCB") in the amount of \$12,000,000. The proceeds of the loan were used to satisfy the existing mortgage and loans payable to ABNY, as discussed above; pay for closing costs associated with the refinancing; and to provide funds for capital projects.

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 3: MORTGAGE AND LOANS PAYABLE (Continued)

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

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

Beginning October 1, 2021 thru maturity, at the election of the Cooperative, interest will be at either a) Prime plus 2.75%, as reset annually each October 1, 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: COMMON STOCK AND 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 a reduction of accumulated equity (deficit).

During the year ended December 31, 2012, the Cooperative sold 20.25 shares of treasury stock to tenant-stockholders which were allocated to one apartment. As of December 31, 2012, the Cooperative held no shares of treasury stock.

During the year ended December 31, 2011, the Cooperative purchased 40.5 shares of treasury stock allocated to two apartments and sold 20.25 shares of treasury stock to tenant-stockholders which were allocated to one apartment. As of December 31, 2011, the Cooperative held 20.25 shares of treasury stock.

**HILLMAN 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-1940s. An increase in carrying charges is based on an annual budget determined by the Board of Directors.

The Cooperative leases space to commercial tenants. As of December 31, 2012, the Cooperative's total leasable commercial space of approximately 110,000 square feet was occupied by 6 tenants, including one tenant that leases garage space which accounts for approximately 87% of the gross leasable area.

Future minimum rentals under non-cancelable commercial operating and parking leases as of December 31, 2012, excluding charges for electricity and real estate taxes, are as follows:

2013	\$ 707,344
2014	708,744
2015	663,931
2016	594,537
2017	597,337
Thereafter	<u>4,134,409</u>
	<u>\$ 7,406,302</u>

On December 19, 2012, the Board of Directors approved a special assessment of \$400 per room (approximately \$1,148,000 in total) to be paid by tenant-stockholders over a period of six months beginning in April 2013. The special assessment will be used for necessary facade work; the purchase of 3 generators (see Note 12) that will provide electricity to keep the water pumps working in the event of a power outage; and reprogramming of the automatic elevators.

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 December 31, 2012 there were 12 first-time sales of apartments and 18 second-time sales of apartments, resulting in apartment resale fees of \$1,390,025.

For the year ended December 31, 2011, there were 13 first-time sales of apartments and 9 second-time sales of apartments resulting in apartment resale fees of \$1,191,550.

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

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 7: FUTURE MAJOR REPAIRS AND REPLACEMENTS CONTINGENCIES (Continued)

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: PENSION

The Cooperative does not directly participate in any multi-employer pension plans. All pension costs are paid by East River, generally based on the number of weeks worked by employees covered under the union contracts. East River's union employees are covered by multi-employer pension plans pursuant to two collective bargaining agreements which expire in April 2014 and April 2015. East River allocates pension costs to the Cooperative based on the amount of payroll allocated to the Cooperative. Payroll costs which are specifically associated with a housing corporation are allocated directly to that housing corporation. All other shared payroll costs are allocated to each housing corporation based on each housing corporation's pro-rata share of the number of dwelling units. The Cooperative's allocable share of charges to operations for contributions to these multi-employer retirement pension plans amounted to approximately \$80,000 and \$72,000 for the years ended December 31, 2012 and 2011, respectively.

In addition, beginning January 1, 2004, East River's nonunion employees are covered by a multi-employer retirement plan. Contributions to the multi-employer retirement plan are shared costs which are allocated to each housing corporation based on each housing corporation's pro-rata share of the number of dwelling units. The Cooperative's allocable share of charges to operations for contributions to this multi-employer retirement plan amounted to \$17,147 and \$16,499 for the years ended December 30, 2012 and 2011, respectively.

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

East River does not administer or control any of these multi-employer plans.

NOTE 9: COMMITMENT AND CONTINGENCIES

On July 2, 2012, the Cooperative entered into a contract in the amount of \$405,000, for the installation of an Advanced Metering System ("Metering System") which will facilitate the sub-metering of electricity for all apartment units. This project involves the installation of 3 master meters, as well as sub-meters in each of the approximately 800 apartments. Electricity usage for each apartment unit can then be measured and tenant-stockholders will be billed based on their actual usage.

The Metering System meets the requirements of the Energy Reduction for Master Metered Buildings (ERMMB) Program, which is the applicable New York State Energy Research

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 9: COMMITMENT AND CONTINGENCIES (Continued)

and Development Authority (NYSERDA) incentive program. Under the NYSERDA incentive program, the Cooperative qualifies for a credit of \$250 for each of the approximately 800 advanced sub-meter units installed and a credit of \$1,500 for each of the 3 master meter units installed. The total incentive to be paid upon successful completion of the project is approximately \$205,000. The NYSERDA ERMMB Program requires that all work shall be completed by July 2013.

As of December 31, 2012, 196 meters have been installed and a receivable of \$49,000 has been accrued from NYSERDA. Such amount is included in Receivables - other on the balance sheet.

NOTE10: INCOME TAXES

The Cooperative has approximately \$13,632,000 in net operating loss carryforwards ("NOLS") available for federal income tax purposes. These NOLS were generated in the years ended December 31, 1997 through December 31, 2012, from patronage and nonpatronage activities. These NOLS expire in tax years ended December 31, 2017 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 2009 (Note 1). Charges to operations applicable to income tax expense amounted to approximately \$63,000 and \$61,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 11: LITIGATION

The Cooperative is subject to various claims and legal proceedings that arise in the ordinary course of its business activities, including, but not limited to, actions against tenant-stockholders for outstanding carrying charges; tenant-stockholders actions against the Cooperative relating to the Cooperative's policies and other matters. 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, after the Cooperative's deductible, the Cooperative has adequate insurance coverage to cover these claims.

NOTE 12: SUBSEQUENT EVENTS

On January 17, 2013, Hillman entered into a contract in the amount of \$771,020, including change orders, for the repairs of the exterior walls and appurtenances, and concrete and façade repairs. The special assessment disclosed in Note 5 is intended to cover the cost of the repairs under this contract. Hillman expects to complete this project during the year ended December 31, 2013.

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Notes to Financial Statements

NOTE 12: SUBSEQUENT EVENTS (Continued)

On May 9, 2013, Hillman entered into a contract in the amount of approximately \$145,000, for the purchase of three backup generators. On May 29, 2013, Hillman accepted a proposal for the wiring installation of these backup generators amounting to approximately \$68,000. Hillman expects this project to be completed during the year ended December 31, 2013.

SUPPLEMENTAL INFORMATION

Independent Auditors' Report on Supplemental Information

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

We have audited the financial statements of Hillman Housing Corp. as of and for the years ended December 31, 2012 and 2011, and our report thereon dated June 4, 2013, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted 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 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 audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in blue ink that reads "Marko Paneth" followed by a stylized mark that appears to be "v" and "Sharon LLP".

New York, New York
June 4, 2013

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Supplemental Information

For the Years Ended December 31, 2012 and 2011

	2012	2011
Prepaid Expenses and Other Assets, Net		
Unexpired insurance	\$ 107,586	\$ 103,290
Deferred financing costs, net	414,466	461,605
J-51 consulting fees, net	21,019	24,542
Fuel inventory	31,720	106,088
Security contract	10,175	9,422
State and city corporation taxes	17,561	10,035
	\$ 602,527	\$ 714,982
Other Income		
Air conditioning fees	\$ 229,830	\$ 225,985
Storage	98,974	65,241
Sublet fees	238,012	235,732
Fitness Room	51,223	44,090
Miscellaneous - net	43,153	38,505
	\$ 661,192	\$ 609,553
Utilities and Fuel Expenses		
Electricity	\$ 1,023,260	\$ 1,051,513
Water and sewer	610,768	527,899
Fuel oil	600,527	1,522,540
Natural gas	428,422	-
Gas	27,529	29,953
	\$ 2,690,506	\$ 3,131,905

**HILLMAN HOUSING CORPORATION
(A COOPERATIVE HOUSING CORPORATION)**

Supplemental Information

For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Labor Expenses		
Porters	\$ 572,508	\$ 539,215
Handymen	250,330	229,625
Boiler room	252,894	229,452
Supervisors	38,430	38,283
	<u>\$ 1,114,162</u>	<u>\$ 1,036,575</u>
Payroll Overhead		
Employee fringe benefits	\$ 570,486	\$ 536,971
Retirement expenses	17,147	16,499
Payroll services	7,443	6,556
	<u>\$ 595,076</u>	<u>\$ 560,026</u>
Repairs and Maintenance Expenses		
Apartment repairs	\$ 60,462	\$ 125,976
Janitorial supplies	152,041	127,064
Elevator	191,759	144,355
Gardening	78,256	77,424
Plumbing	103,283	66,009
Heating and air conditioning	109,567	63,824
Painting and plastering	74,775	70,540
Electrical	52,117	57,980
Exterminating	47,197	101,753
Security	81,675	102,880
Claims paid	66,330	67,715
Miscellaneous	6,110	22,016
	<u>\$ 1,023,572</u>	<u>\$ 1,027,536</u>
Management Expenses		
Salaries	\$ 208,721	\$ 223,276
Telephone / communication	29,111	26,453
Stationery, printing and office supplies	27,047	24,471
Professional fees	106,656	101,285
Miscellaneous	33,572	44,327
	<u>\$ 405,107</u>	<u>\$ 419,812</u>