# PARK CITY 3 & 4 APARTMENTS, INC.

Financial Statements and
Supplementary Information for the
Years Ended December 31, 2017 and 2016

nnk
Certified Public Accountants

PARK CITY 3 & 4 APARTMENTS, INC.

## CONTENTS


| | Page |
|---|---|
| **Independent Auditor's Report** | 1 |
| Financial Statements for the years ended December 31, 2017 and 2016: | |
| Balance Sheets | 2 |
| Statements of Operations | 4 |
| Statements of Changes in Stockholders' Equity | 5 |
| Statements of Cash Flows | 6 |
| Notes to Financial Statements | 7 |
| Supplementary and Prospective Information: | |
| **Independent Auditor's Report on Supplementary and Prospective Information** | 14 |
| Supporting Schedules - Statements of Operations | 15 |
| Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast | 16 |
| Summary of Significant Accounting Policies and Budget Forecast Assumptions | 17 |

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Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Park City 3 & 4 Apartments, Inc.

We have audited the accompanying financial statements of Park City 3 & 4 Apartments, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, changes in stockholders' equity 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 position of Park City 3 & 4 Apartments, Inc. as of December 31, 2017 and 2016, 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 the supplementary information on future 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 the missing information.

Newman, Newman & Kaufman, LLP

February 28, 2018

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## PARK CITY 3 & 4 APARTMENTS, INC.

## BALANCE SHEETS

| December 31, | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 75,569 | $ 180,813 |
| Receivables (Note 3) | 318,395 | 233,299 |
| Prepaid expenses (Note 4) | 109,802 | 75,025 |
| Total Current Assets | 503,766 | 489,137 |
| Reserve fund (Notes 2 and 5) | 1,277,723 | 1,148,964 |
| Property and Improvements: (Notes 2 and 6) | | |
| Land | 1,150,050 | 1,150,050 |
| Building | 27,342,313 | 27,342,313 |
| Building improvements | 33,086,923 | 32,117,020 |
| Total | 61,579,286 | 60,609,383 |
| Less: accumulated depreciation | 43,267,421 | 42,101,947 |
| Net Property and Improvements | 18,311,865 | 18,507,436 |
| Other Asset: | | |
| Cash - security deposit accounts | 8,599 | 8,284 |
| Total Assets | $ 20,101,953 | $ 20,153,821 |

The accompanying notes are an integral part of these financial statements.

## PARK CITY 3 & 4 APARTMENTS, INC.

## BALANCE SHEETS

| December 31, | 2017 | 2016 |
|---|---|---|
| **Liabilities** | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | $ 592,492 | $ 580,156 |
| Real estate tax abatements | 702,753 | 735,549 |
| Mortgage payable - current portion | 208,548 | 200,597 |
| Building improvements payable | 95,700 | 310,957 |
| Accrued mortgage interest | 57,459 | 58,123 |
| Advance maintenance | 38,261 | 24,370 |
| Total Current Liabilities | 1,695,213 | 1,909,752 |
| Long-Term Liabilities: | | |
| Mortgage payable - net of current portion (Note 7) | 17,168,343 | 17,376,891 |
| Unamortized mortgage finance costs (Note 2) | ( 106,194) | ( 122,198) |
| Total Long-Term Debt | 17,062,149 | 17,254,693 |
| Security deposits payable | 49,867 | 46,527 |
| Total Long-Term Liabilities | 17,112,016 | 17,301,220 |
| Total Liabilities | 18,807,229 | 19,210,972 |
| **Stockholders' Equity** | | |
| Common stock - $1.00 par value, 320,000 shares authorized, 302,863 issued and outstanding | 302,863 | 302,863 |
| Paid-in capital in excess of par value | 25,249,952 | 25,249,952 |
| Additional paid-in capital | 14,771,306 | 13,565,702 |
| Accumulated deficit | ( 39,029,397) | ( 38,175,668) |
| Total Stockholders' Equity | 1,294,724 | 942,849 |
| Total Liabilities and Stockholders' Equity | $ 20,101,953 | $ 20,153,821 |

The accompanying notes are an integral part of these financial statements.

## PARK CITY 3 & 4 APARTMENTS, INC.

## STATEMENTS OF OPERATIONS

| Year Ended December 31, | | 2017 | 2016 |
|---|---|---|---|
| **Revenues** | | | |
| Maintenance | | $ 8,836,961 | $ 8,749,474 |
| Less: paid-in capital - mortgage amortization | | ( 200,597) | ( 191,076) |
| | | 8,636,364 | 8,558,398 |
| Garage income | | 784,199 | 734,663 |
| Professional and commercial income | | 304,221 | 301,125 |
| Day care center | | 297,400 | 277,650 |
| Other shareholder fees | | 229,145 | 199,954 |
| Laundry income | | 193,930 | 180,900 |
| Pool income | | 109,096 | 111,540 |
| Total Revenues | | 10,554,355 | 10,364,230 |
| **Cost of Operations** | | | |
| Administrative expenses | Schedule 1 | 270,849 | 277,666 |
| Operating expenses | Schedule 2 | 5,382,778 | 5,120,391 |
| Repairs and maintenance | Schedule 3 | 482,705 | 744,615 |
| Real estate tax | | 3,401,839 | 3,190,784 |
| Interest expense | | 680,112 | 689,665 |
| Corporation tax | | 42,282 | 25,527 |
| Total Cost of Operations | | 10,260,565 | 10,048,648 |
| **Income from operations before other item, noncash depreciation and mortgage finance interest costs** | | 293,790 | 315,582 |
| Interest and dividend income | | 33,959 | 17,028 |
| **Income Before Noncash Depreciation and Mortgage Finance Interest Costs** | | 327,749 | 332,610 |
| Noncash depreciation and mortgage finance interest costs | | ( 1,181,478) | ( 1,594,636) |
| Net Loss For The Year | | ($ 853,729) | ($ 1,262,026) |

The accompanying notes are an integral part of these financial statements.

## PARK CITY 3 & 4 APARTMENTS, INC.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| Year Ended December 31, | 2017 | 2016 |
|---|---|---|
| **Common Stock** | | |
| Balance - January 1, | $ 302,863 | $ 302,863 |
| Transactions during the year | - | - |
| Balance - December 31, | $ 302,863 | $ 302,863 |
| **Paid-In Capital in Excess of Par Value** | | |
| Balance - January 1, | $ 25,249,952 | $ 25,249,952 |
| Transactions during the year | - | - |
| Balance - December 31, | $ 25,249,952 | $ 25,249,952 |
| **Additional Paid-In Capital** | | |
| Balance - January 1, | $ 13,565,702 | $ 12,479,509 |
| Capital assessments | 771,707 | 680,917 |
| Capital fund contributions from transfer fees | 233,300 | 214,200 |
| Mortgage amortization | 200,597 | 191,076 |
| Balance - December 31, | $ 14,771,306 | $ 13,565,702 |
| **Accumulated Deficit** | | |
| Balance - January 1, | ($ 38,175,668) | ($ 36,913,642) |
| Net loss for the year | ( 853,729) | ( 1,262,026) |
| Balance - December 31, | ($ 39,029,397) | ($ 38,175,668) |

The accompanying notes are an integral part of these financial statements.

## PARK CITY 3 & 4 APARTMENTS, INC.

## STATEMENTS OF CASH FLOWS

| Year Ended December 31, | 2017 | 2016 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net loss for the year | ($ 853,729) | ($ 1,262,026) |
| Adjustments to reconcile net loss to cash provided by operating activities: | | |
| Depreciation | 1,165,474 | 1,558,203 |
| Mortgage finance interest costs | 16,004 | 36,433 |
| Other changes in operating assets and liabilities that provided (used) cash: | | |
| Receivables | ( 85,096) | 104,759 |
| Prepaid expenses | ( 34,777) | ( 9,549) |
| Security deposit accounts | ( 315) | 1,181 |
| Accounts payable and accrued expenses | 12,336 | 9,755 |
| Other current liabilities | ( 19,569) | 80,166 |
| Security deposits payable | 3,340 | ( 2,903) |
| Total Adjustments | 1,057,397 | 1,778,045 |
| Cash Provided By Operating Activities | 203,668 | 516,019 |
| **Cash Flows From Investing Activities** | | |
| (Increase) decrease in reserve fund | ( 128,759) | 32,004 |
| Increase in building improvements | ( 969,903) | ( 1,563,288) |
| (Decrease) increase in building improvements payable | ( 215,257) | 278,294 |
| Cash Used In Investing Activities | ( 1,313,919) | ( 1,252,990) |
| **Cash Flows From Financing Activities** | | |
| Amortization of mortgage principal | ( 200,597) | ( 191,076) |
| Paid-in capital - mortgage amortization | 200,597 | 191,076 |
| Capital assessment proceeds | 771,707 | 680,917 |
| Capital fund contributions from transfer fees | 233,300 | 214,200 |
| Cash Provided By Financing Activities | 1,005,007 | 895,117 |
| Net change in cash and cash equivalents | ( 105,244) | 158,146 |
| Cash and cash equivalents at beginning of year | 180,813 | 22,667 |
| Cash and cash equivalents at end of year | $ 75,569 | $ 180,813 |
| **Supplemental Disclosures** | | |
| Interest paid | $ 680,775 | $ 690,297 |
| Income taxes paid | $ 41,085 | $ 35,169 |

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

### Note 1. ORGANIZATION

Park City 3 & 4 Apartments, Inc. (the "Corporation") was formed in June 1980 in order to acquire the property at 97-07 63rd Road, Rego Park, New York. It is a qualified Cooperative Housing Corporation under Section 216(b)(1) of the Internal Revenue Code. The primary purpose of the Corporation is to manage the operations and maintenance of the common facilities of six 14-story buildings consisting of 1,104 apartments, two garages, recreational and other facilities.

### Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Presentation and 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 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. Actual results could differ from those estimates.

**Reclassification of Accounts**
Certain items in the 2016 financial statements have been reclassified to conform to current year classifications. Such reclassification had no effect on previously reported net loss.

**Investments Carrying Values**
The investment in Certificates of Deposit has been classified in the Held-To-Maturity category as the Corporation has the positive intent and ability to hold the securities to maturity. Such investments are carried at amortized cost which approximates fair value. The investment in Certificates of Deposit had both a cost basis and face value of $701,629 and $300,000 at December 31, 2017 and 2016, respectively. Money market funds and time deposit accounts are carried at cost which approximates fair value.

**Property and Improvements**
Property and improvements are stated at cost. The building is fully depreciated. Building improvements and equipment are depreciated on the straight-line method over estimated lives which range from five to twenty-seven and one-half years. Maintenance and repairs that do not increase the useful life of an asset are expensed as incurred.

**Mortgage Finance Costs**
Mortgage finance costs are amortized over the original life of the loan.

**Additional Paid-in Capital**
The portion of maintenance charges used for amortization of the mortgage is treated as additional paid-in capital.

**Revenue Recognition**
Shareholder maintenance is based on an annual budget determined by the Board of Directors. Shareholders are billed monthly based on their respective share ownership. This income is recognized when due and payable. The Corporation retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

**Transfer Fees**
A transfer fee equal to 1% of the purchase price is charged to each of the purchaser and seller upon the transfer (sale) of their respective shares. These amounts are considered capital contributions and are classified as additional paid-in capital for both financial reporting and tax purposes.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Corporation Taxes**
In accordance with FASB ASC 740, Income Taxes, the Corporation is required to disclose and recognize any material tax provisions resulting from uncertain tax positions.

Federal income tax is computed pursuant to Subchapter T of the Internal Revenue Code. Under Subchapter T, a cooperative is required to classify its income and expenses as patronage or non-patronage sourced. Income from non-patronage sources in excess of allocable expenses may be subject to tax. The Corporation believes that all of its income is derived from activities that have an inseparable relationship to the general operations of the Corporation. As a result, the Corporation believes that all of its income is effectively patronage sourced and therefore no segregation of income from patronage activities is required. Accordingly, no provision for taxes, if any, that could result from the application of Subchapter T to the Corporation's income has been reflected in the accompanying financial statements.

At December 31, 2017, the Corporation had approximately $26,455,000 of operating loss carryforwards available for federal income tax purposes which will expire through 2037. Since the Corporation does not anticipate significant taxable income, no related deferred tax asset accounts have been reflected in the accompanying financial statements.

New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations based on the Corporation's capital base.

The Corporation's tax returns for all years since 2014 remain open to examination by the respective taxing authorities. There are currently no tax examinations in progress.

**Cash and Cash Equivalents**
Cash and cash equivalents consist primarily of cash, money market accounts, and other highly liquid investments (not allocated to reserve fund investments) that are readily convertible into cash and purchased with original maturities of three months or less.

**Future Major Repairs and Replacements**
The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Corporation has not promulgated a study to determine the remaining useful lives of the components of the building but periodically estimates the costs of major repairs and replacements that may be required. Therefore, it is not possible to determine at this time whether amounts maintained as a reserve fund will be adequate to meet future needs. When funds are required for major repairs and replacements, the Corporation has the right to utilize available cash reserves and/or borrow, increase maintenance and/or impose assessments, or delay repairs and replacements until funds are available.

**Evaluation of Subsequent Transactions and Events**
The Corporation has evaluated transactions and events that occurred after December 31, 2017 through February 28, 2018, the date the financial statements were available to be issued, and has determined that there were no subsequent transactions or events which would require recognition or disclosure in the financial statements, except as noted herein.

## Notes to Financial Statements

### Note 3. RECEIVABLES

| | 2017 | 2016 |
|---|---|---|
| Shareholders' arrears | $ 160,402 | $ 138,689 |
| Accrued electric submetering charges | 74,616 | 82,697 |
| Commercial income | 65,639 | 10,977 |
| Other | 17,738 | 936 |
| Total | $ 318,395 | $ 233,299 |

### Note 4. PREPAID EXPENSES

| | 2017 | 2016 |
|---|---|---|
| Insurance | $ 70,262 | $ 53,331 |
| Real estate tax | 26,046 | - |
| Service contract | 10,778 | 10,778 |
| Corporation taxes | 2,716 | 10,916 |
| Total | $ 109,802 | $ 75,025 |

### Note 5. RESERVE FUND

The reserve fund is invested as follows:

| | 2017 | 2016 |
|---|---|---|
| Signature Bank: | | |
| Certificates of Deposit | $ 701,629 | $ 300,000 |
| Money Market Accounts | 323,333 | 496,061 |
| Time Deposit Accounts | - | 101,025 |
| NCB Money Market Account | 252,761 | 251,878 |
| Total | $ 1,277,723 | $ 1,148,964 |

### Note 6. PROPERTY AND IMPROVEMENTS

Building improvements were capitalized as follows:

| | 2017 | 2016 |
|---|---|---|
| Catwalk project | $ 820,004 | $ - |
| Plumbing upgrades | 51,732 | 35,520 |
| Professional and rental units renovation projects | 45,107 | - |
| Pool restoration | 41,000 | - |
| Lighting project (net of $5,592 Con Edison energy rebates in 2016 | 12,060 | 9,103 |
| Roof and exterior restoration | - | 1,319,400 |
| Pool deck project | - | 89,000 |
| Garage project | - | 59,300 |
| Equipment upgrades | - | 50,965 |
| Total | $ 969,903 | $ 1,563,288 |

**Contract Commitment**

In addition to building improvements payable of $95,700 at December 31, 2017, the Corporation is committed to completing a contract for a catwalk project in the amount of $435,566. Such projects are subject to change orders and professional fees as work progresses.

## Notes to Financial Statements

### Note 7. MORTGAGE PAYABLE

The mortgage is held by National Cooperative Bank ("NCB"), in the original principal amount of $18,000,000. Terms require equal monthly installments of $73,448 applied first to interest at the rate of 3.84% per annum and the balance as a reduction of principal based on a forty year amortization schedule. The mortgage matures on September 1, 2024, at which time the unpaid principal balance will be extended, refinanced or retired.

Following are required principal payments of the mortgage for each of the next five years:

| | |
|---|---|
| 2018 | $ 208,548 |
| 2019 | 216,814 |
| 2020 | 223,550 |
| 2021 | 234,268 |
| 2022 | 243,554 |

**Prepayment Terms**
The loan may be prepaid in whole only during the first 9.5 years subject to a prepayment premium equal to the greater of 1% of the amount being prepaid or a yield maintenance formula as set forth in the loan documents. The prepayment premium subsequent to 9.5 years and up to three months prior to maturity is 1% of the principal being paid. There is no prepayment premium during the last three months of the term.

### Note 8. CAPITAL ASSESSMENTS

For the year ended December 31, 2017, a capital assessment was billed in one installment of approximately $2.55 per share to fund present and future capital improvements.

For the year ended December 31, 2016, a capital assessment was billed in one installment of approximately $2.25 per share to fund present and future capital improvements.

### Note 9. PROFESSIONAL/COMMERCIAL LEASES

The Corporation, as lessor under various professional leases and a recreational facility consisting of a day school and pool, will receive minimum base rents over each of the next five years as follows:

| | Rental Income | Pool Income |
|---|---|---|
| 2018 | $ 403,753 | $ 112,169 |
| 2019 | 296,643 | 115,259 |
| 2020 | 5,950 | 118,366 |
| 2021 | - | 121,492 |
| 2022 | - | 124,637 |

Some tenants have an option to extend their lease agreements which will expire during the above five year period. Rents from such extensions are not included in the minimum base rents stated above.

**Notes to Financial Statements**

Note 10. **REAL ESTATE TAX**

New York City real estate taxes have been assessed as follows:

| Fiscal Year | Taxable Valuation | Tax Rate | Tax | J-51 Abatement | Net Tax |
|---|---|---|---|---|---|
| 2015/16 | $ 23,720,130 | 12.8830 | $ 3,055,864 | ($ 50,446) | $ 3,005,418 |
| 2016/17 | 26,565,300 | 12.8920 | 3,424,798 | ( 50,446) | 3,374,352 |
| 2017/18 | 28,972,350 | 12.7190 | 3,684,993 | ( 50,446) | 3,634,547 |

The Corporation is the recipient of a real estate tax abatements under the New York City Tax Incentive and Abatement Program (referred to as J-51 Program). Benefits to be offset against real estate taxes over the next five years are as follows:

| | |
|---|---|
| 2018 | $ 50,446 |
| 2019 | 50,446 |
| 2020 | 42,803 |
| 2021 | 26,930 |
| 2022 | 18,700 |

Note 11. **MULTIEMPLOYER UNION AGREEMENT AND PENSION PLAN**

Substantially all of the Corporation's employees are covered by a union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plan. Contributions to the plan are determined in accordance with the provisions of the negotiated labor contract. The contract is in effect through April 20, 2018.

Contributions to the Building Service 32BJ Pension Fund are not segregated or otherwise restricted to provide benefits only to the Corporation's employees. The risks of participating in a multiemployer pension plan differ from those of a single-employer pension plan in the following aspects: a) assets contributed to a multiemployer pension plan by one employer may be used to provide benefits to employees of other participating employers, b) if a participating employer stops contributing to the plan, the unfunded obligation of the plan may be borne by the remaining participating employers, and c) if the Corporation chooses to stop participating in the multiemployer plan, it may be required to pay the plan an amount based on the unfunded status of the plan, which is referred to as the withdrawal liability. The Corporation has no intention of withdrawing from the plan.

The information for 32BJ Service Employees International Union multiemployer pension plan is as follows:

| | |
|---|---|
| Legal Name: | Building Service 32BJ Pension Fund |
| Employer Identification Number: | 13-1879376 |
| Plan Number: | 001 |
| Type of Plan: | Defined Benefit Pension Plan |
| Plan Year End Date: | June 30, 2016 and June 30, 2015 |
| Certified Zone Status: | Red* |
| Funding Improvement Plan/Rehabilitation Plan: | Implemented* |
| Surcharges Paid to Plan in 2017: | None |
| Pension contributions made: | |
| Year ended December 31, 2017 | $104,081 |
| Year ended December 31, 2016 | $104,189 |
| Minimum required pension contributions (per week/per employee): | |
| Year ended December 31, 2016 | $102.75 |
| Year ended December 31, 2017 | $106.75 |
| Period ending April 20, 2018 | $110.75 |

Note 11. **MULTIEMPLOYER UNION AGREEMENT AND PENSION PLAN** (continued)

*Certified pension zone status (as defined by the Pension Protection Act) represents the level at which the pension plan is funded. Plans in the red zone are less than 65% funded; plans in the yellow zone are less than 80% funded; and plans in the green zone are at least 80% funded. The pension plan is considered to be in critical status for the plan year beginning July 1, 2016. In order for the plan to achieve yellow and/or green funding status, the trustees of the fund adopted a Rehabilitation Plan which terms have been incorporated into the collective bargaining agreement. The current agreement provides for increased employer contributions of $4.00 per week per year for each eligible employee.

The information provided above is from the pension plan's most current annual report for the year ended June 30, 2016. The Pension Protection Act Zone Status, the most recent zone status available, was provided to the Corporation by the plan and is certified by the plan's actuary. The Corporation's contributions to the pension plan are less than 5% of all employers' contributions to the plan. There have been no significant changes that would affect the comparability of the contributions for the years ended December 31, 2017 and 2016.

Note 12. **CONCENTRATION OF RISK**

**Concentration of Credit Risk**
The Corporation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to such balances.

**Labor Concentration**
The Corporation's labor is supplied primarily by a union which has a collective bargaining agreement which is expiring on April 20, 2018. Although the Corporation's past experience has been favorable with respect to resolving conflicting demands with this union, it is always possible that a protracted conflict may occur, which could impact the renewal of the collective bargaining agreement.

Note 13. **LEGAL MATTERS**

The Corporation is involved in matters of litigation arising in the ordinary course of business. When appropriate, claims are submitted to the Corporation's insurance carrier. The Corporation's legal counsel believes that the Corporation has adequate coverage to cover the pending lawsuits.

# SUPPLEMENTARY AND PROSPECTIVE INFORMATION

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Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY AND PROSPECTIVE INFORMATION**

To The Board of Directors and Shareholders
Park City 3 & 4 Apartments, Inc.

We have audited the financial statements of Park City 3 & 4 Apartments, Inc. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated February 28, 2018, which expressed an unmodified opinion on those financial statements, appears on Page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supporting Schedules and Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast, which is the responsibility of the Corporation's management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for the portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Newman, Newman & Kaufman, LLP

February 28, 2018 for Historical Statements
October 26, 2017 for Budget Forecast

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PARK CITY 3 & 4 APARTMENTS, INC.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS

| Year Ended December 31, | 2017 | 2016 |
|---|---|---|
| **Administrative Expenses:** | **Schedule 1** | |
| Management fee | $ 106,080 | $ 106,080 |
| Other administrative | 85,912 | 84,470 |
| Professional fees | 49,584 | 55,123 |
| Telephone and communications | 29,273 | 31,993 |
| Total Administrative Expenses | $ 270,849 | $ 277,666 |
| **Operating Expenses:** | **Schedule 2** | |
| Utilities | | |
| Water and sewer | $ 1,002,365 | $ 920,287 |
| Fuel and gas heat | 529,001 | 530,869 |
| Electricity (net of $558,862 and $593,847 rebillings) | 249,913 | 246,534 |
| Gas - cooking | 41,963 | 27,568 |
| | 1,823,242 | 1,725,258 |
| Labor | | |
| Wages | 1,668,428 | 1,641,604 |
| Security wages and payroll taxes | 760,547 | 643,486 |
| Union and employee benefits | 571,703 | 552,831 |
| Payroll taxes | 126,556 | 125,189 |
| Workers' compensation and disability insurance | 55,186 | 59,427 |
| | 3,182,420 | 3,022,537 |
| Other | | |
| Insurance | 335,489 | 332,317 |
| Submetering contract | 29,508 | 29,481 |
| Permits and other operating | 12,119 | 10,798 |
| | 377,116 | 372,596 |
| Total Operating Expenses | $ 5,382,778 | $ 5,120,391 |
| **Repairs and Maintenance:** | **Schedule 3** | |
| Plumbing, heating and boiler repairs | $ 136,879 | $ 146,238 |
| Supplies | 119,430 | 112,681 |
| Equipment repairs and other | 78,943 | 117,341 |
| Elevator contract and repairs | 71,922 | 76,140 |
| Electrical, intercom and security repairs | 24,609 | 17,738 |
| Exterminating | 14,480 | 17,053 |
| Grounds and plant maintenance | 13,787 | 14,740 |
| Exterior repairs | 9,498 | 35,643 |
| Painting, plastering and flooring | 5,271 | 19,014 |
| Uniforms | 4,309 | 3,244 |
| Compactor maintenance | 3,042 | 3,386 |
| Consultants | 535 | 3,730 |
| Special repairs - painting projects | - | 177,667 |
| Total Repairs and Maintenance | $ 482,705 | $ 744,615 |

See Independent Auditor's Report on Supplementary and Prospective Information.

## Comparative Schedules of Revenues and Expenses - Budget, Historical and Budget Forecast

| | For The Year January 1, 2017 - December 31, 2017 | | Prior Year January 1, 2016 - December 31, 2016 | Next Year January 1, 2018 - December 31, 2018 |
|---|---|---|---|---|
| | Budget (Unaudited) | Actual | Actual | Budget Forecast (Unaudited) |
| **REVENUES** | | | | |
| Maintenance | $ 8,837,000 | $ 8,836,961 | $ 8,749,474 | $ 9,190,400 |
| Garage income | 778,600 | 784,199 | 734,663 | 795,800 |
| Professional, commercial & day care center rents | 610,900 | 601,621 | 578,775 | 690,900 |
| Other shareholder fees | 209,500 | 229,145 | 199,954 | 220,000 |
| Laundry income | 195,000 | 193,930 | 180,900 | 198,000 |
| Pool income | 109,100 | 109,096 | 111,540 | 112,200 |
| **TOTAL REVENUES** | 10,740,100 | 10,754,952 | 10,555,306 | 11,207,300 |
| **EXPENSES** | | | | |
| Management fee | 106,100 | 106,080 | 106,080 | 106,100 |
| Other administrative | 83,000 | 85,912 | 84,470 | 83,000 |
| Professional fees | 48,700 | 49,584 | 55,123 | 42,900 |
| Telephone and communications | 32,400 | 29,273 | 31,993 | 33,000 |
| Water and sewer | 934,300 | 1,002,365 | 920,287 | 976,800 |
| Fuel and gas heat | 621,800 | 529,001 | 530,869 | 753,200 |
| Electricity and gas | 270,000 | 291,876 | 274,102 | 257,600 |
| Wages | 1,732,900 | 1,668,428 | 1,641,604 | 1,739,300 |
| Security wages and payroll taxes | 676,200 | 760,547 | 643,486 | 738,400 |
| Union and employee benefits | 607,500 | 571,703 | 552,831 | 610,400 |
| Payroll taxes | 138,600 | 126,556 | 125,189 | 139,100 |
| Workers' compensation & disability insurance | 80,000 | 55,186 | 59,427 | 80,300 |
| Insurance | 345,600 | 335,489 | 332,317 | 348,900 |
| Permits and other operating | 42,600 | 41,627 | 40,279 | 43,000 |
| Repairs and maintenance | 550,000 | 482,705 | 744,615 | 550,000 |
| Real estate tax | 3,561,000 | 3,401,839 | 3,190,784 | 3,794,500 |
| Mortgage interest and amortization | 881,400 | 880,709 | 880,741 | 881,400 |
| Corporation taxes | 42,000 | 42,282 | 25,527 | 44,400 |
| **TOTAL EXPENSES** | 10,754,100 | 10,461,162 | 10,239,724 | 11,222,300 |
| Budgeted Deficit | ( 14,000) | | | ( 15,000) |
| **INCOME FROM OPERATIONS** | | 293,790 | 315,582 | |
| Interest and dividend income | 14,000 | 33,959 | 17,028 | 15,000 |
| **INCOME BEFORE NONCASH DEPRECIATION AND MORTGAGE FINANCE INTEREST COSTS** | $ -0- | $ 327,749 | $ 332,610 | $ -0- |

See Independent Auditor's Report on Supplementary and Prospective Information and Summary of Significant Accounting Policies and Budget Forecast Assumptions.

## Summary of Significant Accounting Policies and Budget Forecast Assumptions
## Year Ending December 31, 2018

This financial budget forecast presents, to the best of management's knowledge and belief, the Corporation's expected results of operations for the budget forecast period. Accordingly, the budget forecast reflects management's judgment, as of the date of this budget forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the budget forecast. There will usually be differences between forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. The comparative historical information for 2017 and 2016 is extracted from the Corporation's financial statements for those years. Those financial statements should be read for additional information.

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The budget forecast has been prepared using generally accepted accounting principles that the Corporation expects to use when preparing its historical financial statements.

### BUDGET FORECAST ASSUMPTIONS

#### Revenues

Maintenance charges have been computed based on approximately $2.53 per share per month which reflects a 4% increase over the previous level. Professional and commercial income is based upon continuation of existing leases.

#### Expenses

**Utilities**
Reflect increases, if any, based upon industry consensus and rates set by appropriate regulatory agencies.

**Labor and Union Benefits**
The Corporation's labor union contract with Local 32B-32J covers substantially all building employees. Labor costs and union benefits are forecasted based upon estimated contract rates.

**Repairs and Maintenance**
Based upon historical experience and expected maintenance requirements.

**Real Estate Tax**
Based upon the estimated tax rate of 12.900% for the first half of the year and an estimated rate of 13.000% for the second half applied to the 2017/18 assessed value increased by approximately 5%.