

350 BLEECKER STREET APARTMENT CORPORATION

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002

350 BLEECKER STREET APARTMENT CORPORATION

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Marin & Montanye LLP

CERTIFIED PUBLIC ACCOUNTANTS

RICHARD B. MONTANYE, CPA
PATRICIA A. PRUSINSKI, CPA

FRANK LIONEL, CPA

Independent Auditor's Report

To The Board of Directors and Shareholders of
350 Bleecker Street Apartment Corporation:

We have audited the accompanying balance sheets of 350 BLEECKER STREET APARTMENT CORPORATION as of December 31, 2003 and 2002, and the related statements of operations, accumulated deficit (and supporting schedules) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 350 BLEECKER STREET APARTMENT CORPORATION as of December 31, 2003 and 2002, 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.

As discussed in the notes to the financial statements, the Corporation has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of costs of major repairs and replacements that will be required in the future, that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.



February 3, 2004

BALANCE SHEETS

As of December 31, 2003 and 2002

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2003</u>	<u>2002</u>
<u>CURRENT LIABILITIES</u>		
Accounts payable and accrued expenses - Schedule 1 Exhibit A	\$ 17,196	\$ 53,814
Loan payable – (Note 12)	-0-	370,000
Insurance Loan payable	-0-	13,205
Real estate tax abatements and exemptions payable – (Note 10)	19,879	12,359
Prepaid occupancy income	1,666	2,098
SCRIE payable	259	426
Move in/out and alterations deposits	1,000	3,500
Accrued mortgage interest	20,860	21,669
Current portion of mortgage payable	<u>-0-</u>	<u>34,008</u>
<u>TOTAL CURRENT LIABILITIES</u>	60,860	511,079
<u>LONG TERM LIABILITIES</u>		
Mortgage Payable – National Cooperative Bank – (Note 5)	4,250,000	3,325,170
Less: Current portion	<u>-0-</u>	<u>(34,008)</u>
<u>TOTAL LONG TERM LIABILITIES</u>	<u>4,425,000</u>	<u>3,291,162</u>
<u>TOTAL LIABILITIES</u>	4,310,860	3,802,241
<u>STOCKHOLDERS' EQUITY</u>		
Capital Stock Common, authorized 17,222 shares, Issued and outstanding 17,222 shares at \$1 par value	17,222	17,222
Paid-in Capital	10,541,150	10,541,150
Accumulated deficit - December 31, 2003	<u>(9,156,432)</u>	<u>(8,131,698)</u>
<u>TOTAL STOCKHOLDERS' EQUITY</u>	<u>1,401,940</u>	<u>2,426,674</u>
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>\$ 5,712,800</u>	<u>\$ 6,228,915</u>

See Notes to Financial Statements.

SUPPORTING SCHEDULESAs of December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ACCOUNTS PAYABLE AND ACCRUED EXPENSES</u>		<u>Schedule 1</u>
Legal	\$ 488	\$ 2,000
Legal - Garage litigation	-0-	5,007
Miscellaneous administrative and telephone	354	175
Electricity	914	2,151
Gas	7,043	11,407
Water and sewer charges	4,519	29,917
Exterminating	130	249
Heating and plumbing repairs	-0-	974
Supplies and janitorial materials	357	424
Grounds expense	298	500
Other interest	-0-	71
Corporate taxes	-0-	939
Payroll	935	-0-
General repairs and maintenance	272	-0-
Miscellaneous operating	65	-0-
New York City real estate taxes	<u>1,821</u>	<u>-0-</u>
 <u>TOTAL ACCOUNTS PAYABLE AND ACCRUED EXPENSES</u>	 <u>\$ 17,196</u>	 <u>\$ 53,814</u>

See Notes to Financial Statements.

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

For The Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>INCOME</u>		
<u>Income from Shareholders</u>		
Maintenance charges - apartments	\$ 1,070,519	\$ 1,040,670
Special assessments – (Note 8)	\$ 65,123	65,107
Apartment resale fee	100,920	89,330
Sublet fees – (Note 11)	28,500	1,188
Late charges	1,750	2,400
Storage	10,800	-0-
Miscellaneous income	<u>332</u>	<u>800</u>
<u>TOTAL INCOME</u>	1,277,944	1,199,495
<u>OTHER INCOME</u>		
Commercial income – (Note 4)	86,000	86,000
Commercial rent escalation – (Note 4)	5,337	16,975
Commercial water meter reimbursement – (Note 4)	-0-	5,358
Laundry income	11,637	12,132
Interest income	2,727	576
NCB Patronage refund	1,107	746
Workers' compensation insurance refund	<u>-0-</u>	<u>10,619</u>
<u>TOTAL INCOME</u>	<u>1,384,752</u>	<u>1,331,901</u>
<u>COST OF OPERATIONS</u>		
Administrative expenses	Schedule 1 Exhibit B 133,878	122,073
Operating expenses	Schedule 2 Exhibit B 350,299	277,136
Maintenance expenses	Schedule 3 Exhibit B 72,704	51,131
Taxes	Schedule 4 Exhibit B 447,510	365,907
Financial expenses	Schedule 5 Exhibit B <u>252,322</u>	<u>266,494</u>
<u>TOTAL COSTS OF OPERATIONS</u>	<u>1,256,713</u>	<u>1,082,741</u>
<u>INCOME FROM OPERATIONS BEFORE DEPRECIATION, AMORTIZATION AND OTHER ITEMS</u>		
	128,039	249,160
Depreciation and amortization expense	Schedule 6 (525,854)	(477,357)
Legal expense – Garage lease litigation	(344,314)	(92,298)
Legal settlement - Sponsor	(216,102)	-0-
Mortgage prepayment fee	(66,503)	-0-
Prior year water and sewer credits – (Note 13)	-0-	37,060
Consulting fees for water and sewer charges (Note 13)	<u>-0-</u>	<u>(8,519)</u>
NET LOSS	(1,024,734)	(291,954)
Beginning Accumulated Deficit - Restated - Note 10	<u>(8,131,698)</u>	<u>(7,839,744)</u>
Ending Accumulated Deficit	<u><u>\$(9,156,432)</u></u>	<u><u>\$(8,131,698)</u></u>

See Notes to Financial Statements.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS

For The Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>ADMINISTRATIVE EXPENSES</u>		<u>Schedule 1</u>
Management fee	\$ 41,910	40,689
Auditing	8,700	8,000
Legal	23,025	9,878
Legal – Tax reduction	425	400
Stationery, printing, miscellaneous administrative expenses	7,896	18,539
Communications	1,246	985
Insurance	48,837	43,582
Engineering/Architecture Consultants	<u>1,839</u>	<u>-0-</u>
<u>TOTAL ADMINISTRATIVE EXPENSES</u>	<u>\$ 133,878</u>	<u>\$ 122,073</u>
<u>OPERATING EXPENSES</u>		<u>Schedule 2</u>
Water and sewer charges – (Note 13)	\$ 16,680	14,794
Electricity	18,091	15,871
Steam heat	39,734	22,371
Domestic hot water	5,389	2,970
Cooking gas	4,102	3,414
Payroll	194,308	171,011
Payroll taxes	15,927	13,958
Payroll insurance	14,567	10,748
Employee benefits	40,415	21,669
Permits	691	280
Miscellaneous operating	<u>395</u>	<u>50</u>
<u>TOTAL OPERATING EXPENSES</u>	<u>\$ 350,299</u>	<u>\$ 277,136</u>
<u>MAINTENANCE EXPENSES</u>		<u>Schedule 3</u>
Exterminating	\$ 2,009	1,494
Plumbing and heating repairs	6,248	6,583
Grounds expense	9,586	4,743
Elevator repair and maintenance	10,179	9,017
General repairs and maintenance	23,714	19,569
Supplies and janitorial materials	<u>20,968</u>	<u>9,725</u>
<u>TOTAL MAINTENANCE EXPENSES</u>	<u>\$ 72,704</u>	<u>\$ 51,131</u>

See Notes to Financial Statements.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS

For The Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>TAXES</u>		<u>Schedule 4</u>
New York City real estate tax	\$ 440,596	359,082
New York State franchise taxes	4,876	4,482
New York City corporate tax	<u>2,038</u>	<u>2,343</u>
<u>TOTAL TAXES</u>	<u>\$ 447,510</u>	<u>365,907</u>
<u>FINANCIAL EXPENSES</u>		<u>Schedule 5</u>
Interest on mortgage – National Cooperative Bank	\$ 251,353	261,172
Other interest	969	<u>5,322</u>
<u>TOTAL FINANCIAL EXPENSES</u>	<u>\$ 252,322</u>	<u>\$ 266,494</u>
<u>DEPRECIATION AND AMORTIZATION</u>		<u>Schedule 6</u>
Building	\$ 383,377	383,377
Building equipment	5,815	5,815
Building improvements	74,575	71,064
Amortization of mortgage costs	60,087	17,101
Amortization of credit line costs	<u>2,000</u>	<u>-0-</u>
<u>TOTAL DEPRECIATION AND AMORTIZATION</u>	<u>\$ 525,854</u>	<u>\$ 477,357</u>

See Notes to Financial Statements.

350 BLEECKER STREET APARTMENT CORPORATIONEXHIBITS C & DSTATEMENT OF CASH FLOWSEXHIBIT CFor The Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net loss	\$ (1,024,734)	(291,954)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization expense	525,854	477,357
Decrease in receivables	43,614	4,252
(Increase) Decrease in prepaid expenses	86,255	(63,634)
Decrease in accounts payable and accrued expenses	(46,211)	(469,425)
Cash provided by investments – legal payment	-0-	97,000
Interest earned	<u>-0-</u>	<u>(316)</u>
Total adjustments	<u>609,512</u>	<u>45,234</u>
<u>CASH PROVIDED BY OPERATING ACTIVITIES</u>	(415,222)	(246,720)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of property and equipment	(48,045)	(27,811)
Decrease in investments - Transfer to operations	<u>-0-</u>	<u>23,927</u>
<u>CASH USED BY INVESTING ACTIVITIES</u>	(48,045)	(3,884)
<u>CASH FLOW FROM FINANCING ACTIVITY</u>		
Increase in loan payable	-0-	370,000
Payment of loan payable	(370,000)	-0-
Proceeds from mortgage refinancing	4,250,000	-0-
Payoff of old mortgage principal	(3,325,170)	-0-
Refund of Good Faith deposit	85,000	-0-
Payment of mortgage refinancing costs	(83,667)	(93,900)
Payment of line of credit costs	(20,000)	-0-
Amortization of mortgage principal	<u>-0-</u>	<u>(31,458)</u>
<u>CASH PROVIDED BY FINANCING ACTIVITY</u>	<u>536,163</u>	<u>244,642</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	72,896	(5,962)
Cash and cash equivalents at beginning of year	<u>75,893</u>	<u>81,855</u>
Cash and cash equivalents at end of year	<u>\$ 148,789</u>	<u>75,893</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATIONEXHIBIT D

	<u>2003</u>	<u>2002</u>
Cash paid during the year:		
Corporate taxes	\$ 8,924	\$ 11,342
Interest	\$ 231,495	\$ 265,760

See Notes to Financial Statements.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2003 and 2002

NOTE 1 - ORGANIZATION

350 Bleecker Street Apartment Corporation (the "Corporation") is a cooperative housing corporation incorporated in the State of New York in September 1980. The closing of title on the property was July 1985. The Corporation owns the land and seven story building located in the borough of Manhattan, New York which originally consisted of 137 residential apartments (some of which have been subsequently combined), two commercial stores, a laundry room and a garage. The primary purpose of the Corporation is to manage the operations of 350 Bleecker Street Apartment Corporation, and maintain common elements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

For purpose of the statement of cash flows, the Corporation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Depreciation

Property and equipment are recorded at cost and are being depreciated over their estimated useful lives using the straight-line method.

Amortization

Amortization of mortgage cost is computed using the straight-line method over the term of the loan. Line of credit costs are amortized over the life of the loan.

Shareholder Maintenance

Tenant-shareholders are subject to monthly maintenance charges to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Tenant-shareholder receivables at the balance sheet date represent maintenance fees due from tenant-shareholders. The Corporation's policy is to retain legal counsel and place liens on the shares of stock of tenant-shareholders whose maintenance charges are delinquent. The Corporation considers all tenant-shareholder receivables at December 31, 2003 to be collectible. Accordingly, no allowance for doubtful accounts is required. If any receivables become uncollectible, they will be charged to operations when the determination is made. Any excess maintenance charges at year end are retained by the Corporation for use in future years.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect 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 may differ from those estimates.

NOTE 3 - CONCENTRATION OF CREDIT RISK

Total funds on deposit at Citibank generally exceed FDIC limits due to daily cash flow requirements. The amount exceeding this limit at December 31, 2003 was \$4,227.00

NOTE 4 - RELATED PARTY TRANSACTIONS

Sponsor Owned Apartments

The Sponsor owned 3,818 and 4,042 shares or 22.47% and 23.46% of the total issued shares as of December 31, 2003 and 2002, respectively. Maintenance charges attributed to the Sponsor totaled \$237,327 and \$244,459 for the years ended 31, 2003 and 2002, respectively. As of December 31, 2003, the Sponsor is current with maintenance on these apartments.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2003 and 2002

NOTE 4 - RELATED PARTY TRANSACTIONS – (continued)

Master Commercial Lease

The Corporation has a master commercial lease agreement with the Sponsor, Bleecker Charles Company, entered into in July 31, 1985, with the then President of 350 Bleecker Street Apartment Corporation, who is the general partner of Bleecker Charles Company. Under the terms of the master commercial lease, monthly payments of \$7,167 monthly or \$86,000 annually, are to be paid by the Sponsor to the Cooperative. The term of the lease agreement is for 75 years, commencing July 31, 1985 and terminating on July 31, 2060. In addition to the annual charge to the Sponsor, additional rent is due the Cooperative in direct proportion to increases or decreases in the annual real estate taxes attributable to 350 Bleecker Street Apartment Corporation in excess of such taxes for 1984/1985 (the "base period"), but no such increase shall exceed 12% of any increase of such taxes for the whole premises over the base period. Sponsor shall be further responsible for, as additional rent, all operating expenses including fuel, insurance and labor, in excess of such expenses relating to the commercial space for the base year. The total additional rent payable shall not exceed 75% of the total rents and additional rents collected. Additional rent payable, shall be paid by the Sponsor within 30 days following submission of copies of paid bills. For the year ended December 31, 2003, the amount due to the Corporation for this provision is \$5,337. As of the balance sheet date, this amount had not been billed to or paid by the Sponsor.

NOTE 5 - MORTGAGE PAYABLE AND LINE OF CREDIT

Mortgage Payable

On January 14, 2003, the Corporation refinanced its existing mortgage held by National Cooperative Bank ("NCB") having a principal balance of \$3,325,170 at an interest rate of 7.82%. The new mortgage with NCB, in the principal amount of \$4,250,000, provides for monthly payments of \$20,860 which consist of interest only at 5.89 per annum. The mortgage matures on February 1, 2013, at which time any accrued interest and unpaid principal balance will become due and payable. Prepayment is permitted without penalty during the ninety days preceding maturity. No prepayment may be made prior to August 1, 2011. The mortgage note is collateralized by the land and building owned by the Corporation.

Under the term of the agreement, the Corporation is required to maintain a deposit of \$50,000 in a reserve account with NCB for one year. The Corporation must also maintain a replacement and operating reserve in an amount equal to at least 10% of the aggregate amount of maintenance charges paid the previous year to the Corporation. The deposit of \$50,000 may be counted toward the operating reserve requirement. Any reduction below this amount must be restored in six months.

Interest expense was \$251,353 and \$261,172 for the years ended December 31, 2003 and 2002, respectively.

Lines of Credit

Under the terms of the new mortgage agreement, NCB has made available to the Corporation a \$3,000,000 revolving line of credit. Under the terms of the mortgage agreement \$2,000,000 of the credit line is restricted and can only be used for any judgments levied in connection with specific legal actions. Interest on draw downs will be 1.35% above the prime rate as reported in Wall Street Journal. The credit line matures on February 1, 2013, at which time any accrued interest and outstanding principal shall become due and payable. Advances must be made in minimum amounts of not less than \$50,000. There has been no draw down on this line of credit as of December 31, 2003.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2003 and 2002

NOTE 6 - INVESTMENTS IN NATIONAL COOPERATIVE BANK

The Corporation holds Class B2 Stock of its mortgage holder. The NCB Class B2 Stock is acquired through patronage refunds. The stock is currently non-transferable and non-redeemable. The Bank Act does not allow a dividend to be paid on this stock.

Class C Stock can be held only by eligible borrowers of NCB. Class C Stock is non-redeemable by NCB but is transferable among eligible borrowers of NCB. Class C Stock may be purchased from NCB or is received as part of NCB's patronage refund distribution. NCB will now pay a cash dividend on its Class C Stock equal to as much as 2 percent of NCB's net income. The dividend will be distributed among all holders of Class C Stock regardless of patronage. The Corporation does not hold Class C Stock.

Under NCB Capitalization and Patronage Refund Policy, the cash portion of each cooperative's patronage refund may be between 35 percent and 55 percent based on the amount of NCB Class B and Class C Stock owned by the Cooperative relative to the loan amount or loan commitment made to the Cooperative by NCB. In addition, the stock portion of the patronage refund will consist of Class B Stock until the Cooperative accumulates 16 percent of its aggregate loan amount in Class B Stock. Any further stock distributions will consist of Class C Stock. All Class B Stock may be used by the Cooperative to offset any future purchase requirements.

Patronage refunds have been received as follows:

	<u>Cash</u>	<u>Class B2 Stock</u>
2003	\$ 1,107	\$ 1,661
2002	746	1,119

NOTE 7 - CAPITAL IMPROVEMENTS

In 2003, the Corporation incurred and paid \$20,000 for the installation of hallway carpets, \$9,620 for the installation of new mailboxes in the lobby, \$8,100 for lobby air conditioner, \$10,325 for installation of emergency lights and electric work.

Also in 2002, the Corporation paid \$22,453 for facade repairs.

NOTE 8 - SPECIAL ASSESSMENTS

In 2003, the Corporation imposed an assessment of \$3.61 per share to fund the operations. The per share amount corresponds to the amount credited to eligible unit owners with regard to their tax abatement credit. The Corporation raised a total of \$65,123 of which \$14,592 is attributable to Sponsor owned units which were not eligible for the tax abatement credit for the year ended December 31, 2003.

In 2002, special assessments were instituted by the Board of Directors of the Corporation to generate funds to be used to pay legal fees associated with the garage lease litigation (Note 12). The total amount of the assessment was \$13,441 and was billed monthly in January 2002 and February 2002 at 39¢ per share. An assessment of \$51,666 was billed in March of 2002, to offset the amount credited to unit owners with regard to their tax abatement credit.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2003 and 2002

NOTE 9 - CONTRIBUTIONS TO CAPITAL

The Corporation treats special assessments used for the acquisition of capital improvements and maintenance charges used for amortization of mortgage principal as contributions to capital for tax purposes only.

For the year ended December 31, 2002, Paid-in Capital for tax purposes was:

Mortgage amortization	\$ 31,458
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NOTE 10 - REAL ESTATE TAX ABATEMENTS

New York State School Tax Relief Program

The New York State School Tax Relief Program is a credit that is applied for by each individual taxpayer or shareholder and it represents a reduction of taxable value when calculating the real estate tax. The STAR credit received by the Corporation resulted in a tax savings of \$11,013 and \$9,131 for the shareholders for the year ended December 31, 2003 and 2002, respectively. These amounts are being credited to the eligible shareholders.

Condo/Coop Tax Abatements

As a result of revisions to Section 467(a) of the New York Real Property Tax Law, certain shareholders of the Cooperative units are eligible for partial abatements of their real estate taxes commencing with the 1996/1997 tax year. The abatement has been extended for an additional three years through the 2003/2004 tax year.

For the year ended December 31, 2003, the Corporation received credits of \$55,459 on its tax bills representing the abatements for the last two quarters of the 2002/2003 tax year and the first two quarters of the 2003/2004 tax year. For the year ended December 31, 2002, the Corporation received credits of \$66,441 on its tax bills representing the abatements for the 2001/2002 tax year and the first two quarters of the 2002/2003 tax year. These amounts are being credited to the eligible shareholders.

NOTE 11 - SUBLET FEES

In 2003, the Corporation collected \$28,500 from two shareholders upon the sale of their apartments.

NOTE 12 - LITIGATION

In July 2003, the Corporation ended its litigation against Bleecker Charles Company, the Sponsor, regarding the garage lease. As a part of the legal settlement, the Corporation paid \$175,000 to the Sponsor and the Federal Insurance Company paid \$275,000 to the Sponsor. The Corporation also released the Sponsor from additional rent payable under the provisions of paragraphs 28, 41 and 53 of the Master Lease agreement dated July 31, 1985 for the period prior to June 30, 2003. The amount due for additional rent was at least \$41,102. The Sponsor acknowledges that the Master Lease is in full force and effect and acknowledges the Corporation's right to enforce the terms of the lease for the period commencing July 1, 2003 and thereafter, during the term of the lease. In connection with this litigation, members of the Board of Directors lent the Corporation an interest free loan in the amount of \$370,000 to pay legal fees. This loan was repaid in January 2003 with funds from the mortgage refinancing.

350 BLEECKER STREET APARTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2003 and 2002

NOTE 13 - WATER AND SEWER CHARGES

As of December 31, 2002, the Corporation was disputing the water and sewer charges with the New York City Department of Environmental Protection. The City has admitted that certain meters were defective and have since replaced them. The Department of Environmental Protection has made numerous adjustments to prior year water and sewer charges resulting in a credit of \$37,060. The liability in the amount of \$14,794 is based on original billings from the City and the actual charges are subject to adjustment. Consulting fees related to water and sewer charges were \$8,519 for the year ended December 31, 2002.

NOTE 14 - CORPORATION TAX

During 1996, in a case involving a conventional cooperative, the United States Tax Court ruled that Subchapter T of the Internal Revenue Code, not Section 277, applies to housing cooperatives that qualify under Section 216 of the Internal Revenue Code. Subchapter T requires allocations of patronage and non-patronage source income.

The Corporation is qualified to prepare its tax returns pursuant to the provisions of Subchapter T of the Internal Revenue Code. Subchapter T provides that expenses attributable to the generation of patronage income, i.e., income from business done with or for patrons (tenant cooperators), are deductible only to the extent of patronage income. The Corporation believes that all of its income for the year ended December 31, 2003, is patronage income within the meaning of Subchapter T.

For the year ended December 31, 2003, the Corporation sustained a loss and is not liable for federal tax. The Corporation also has net operating loss carryforwards from prior years for tax purposes totaling \$9,033,449. The tax loss carryforwards, if not used against taxable income expire beginning in tax year 2007 and continuing through tax year 2022. The Corporation is also subject to New York State and City tax based on the higher of net income or capital. Current tax expense is \$6,914.

It is believed that the Corporation will not benefit from any deferred tax benefits resulting from prior net operating losses. Therefore, no deferred tax assets have been recognized.

NOTE 15 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation may utilize available cash, borrow funds, increase maintenance charges, pass special assessments or delay repairs and replacements until the funds are available. The effect on future assessments has not been determined at this time.

NOTE 16 - RECLASSIFICATION

Certain items in the 2002 report have been reclassified to conform to current year classifications. Such reclassification had no effect on previously reported net loss.

Marin & Montanye LLP

CERTIFIED PUBLIC ACCOUNTANTS

RICHARD B. MONTANYE, CPA
PATRICIA A. PRUSINSKI, CPA

FRANK LIONEL, CPA

Independent Auditor's Report
On Supplementary and Prospective Information

To The Board of Directors and Shareholders of
350 Bleecker Street Apartment Corporation:

Our report on our audits of the basic financial statements of 350 BLEECKER STREET APARTMENT CORPORATION for 2003 and 2002 appears on Page 1. The audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial information contained in the accompanying Comparative Schedule of Income and Expenditures -Budget, Historical and Forecast is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We also have compiled the accompanying budget forecast of 350 BLEECKER STREET APARTMENT CORPORATION for the year ending December 31, 2004, in accordance with guidelines established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of forecasted data information that is the representation of management and does not include evaluation of the support for the assumptions underlying the presentation. We have not examined the presentation and, accordingly, do not express an opinion or any other form of assurance in the accompanying presentation or assumption. Furthermore, there will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.



February 3, 2004 for Historical Statements
March 25, 2004 for Forecasted Statements

COMPARATIVE SCHEDULE OF INCOME AND EXPENDITURES – BUDGET, HISTORICAL AND FORECASTYears Ended December 31, 2003 and 2002 (Historical) and Year Ending December 31, 2004 (Forecasted)

	<u>2003</u>		<u>2002</u>	<u>2004</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>	<u>Forecast</u>
	<u>Unaudited</u>			
<u>INCOME</u>				
Maintenance charges	\$ 1,070,520	\$ 1,070,519	(1) \$ 1,040,670	\$ 1,105,652 (1)
Operating assessment	68,421	65,123	65,107	62,000
Apartment resale fee	89,500	100,920	89,330	73,120
Sublet fees	1,200	28,500	1,188	4,000
Late charges	2,400	1,750	2,400	1,500
Storage	7,400	10,800	-0-	-0-
Commercial income	86,000	86,000	86,000	86,000
Commercial rent escalation	38,000	5,337	22,333	25,000
Laundry income	12,000	11,637	12,132	12,000
Interest and dividend income	4,000	3,834	11,941	17,000
Miscellaneous	2,500	332	800	4,600
	<u>1,381,941</u>	<u>1,384,752</u>	<u>1,331,901</u>	<u>1,390,872</u>
<u>TOTAL INCOME</u>				
<u>EXPENDITURES</u>				
Management fee	41,910	41,910	40,689	43,167
Auditing	8,300	8,700	8,000	10,000
Legal	125,000	367,764	102,576	50,000
Miscellaneous administrative expenses	8,000	7,896	18,539	8,600
Communications	1,000	1,246	985	2,000
Insurance	55,000	48,837	43,582	65,000
Engineer/architecture consultants	500	1,839	-0-	5,000
Electricity	17,000	18,091	15,871	20,000
Steam heat, hot water and cooking gas	36,500	49,225	28,755	68,000
Water and sewer charges	25,000	16,680	14,794	20,000
Payroll	185,800	194,308	171,011	208,200
Payroll taxes	14,200	15,927	13,958	18,800
Payroll insurance	-0-	14,567	10,748	12,000
Employee benefits	24,000	40,415	21,669	25,000
Permits	250	691	280	1,200
Miscellaneous operating	1,600	395	50	2,000
Exterminating	1,400	2,009	1,494	2,000
Plumbing and heating repairs	7,500	6,248	6,583	7,700
Ground expense	11,750	9,586	4,743	10,000
Elevator repairs and maintenance	10,000	10,179	9,017	10,500
General repairs and maintenance	22,100	23,714	19,569	23,500
Supplies and janitorial materials	14,500	20,968	9,725	25,000
New York City real estate taxes	430,350	440,596	359,082	439,000
N.Y.S. and N.Y.C. corporate taxes	14,000	6,914	6,825	12,000
Mortgage interest and amortization	250,325	251,353	292,630	250,235
Other interest	-0-	969	5,322	-0-
Contingency	20,000	-0-	-0-	1,880
	<u>1,325,985</u>	<u>1,601,027</u>	<u>1,206,497</u>	<u>1,340,872</u>
<u>TOTAL EXPENDITURES</u>				
<u>BUDGET SURPLUS</u>	<u>\$ 55,956</u>			<u>\$ 50,000 (2)</u>
<u>ACTUAL SURPLUS (DEFICIT)</u>		(216,275)	125,404	
Add: Prior year water and sewer credits – net		-0-	28,541	
Less: Legal settlement – Sponsor		<u>(216,102)</u>	<u>-0-</u>	
<u>NET SURPLUS (DEFICIT)</u>		<u>\$ (432,377)</u>	<u>\$ 153,945</u>	

(1) Reflects a 2.78% and 3.28% increase effective January 1, 2003 and 2004, respectively.

(2) The budget surplus maybe applied in whole or part to capital expenditures, as in previous years. For example, see Note 7. These capital expenditures are not listed above.

See Accountant's Compilation Report and Summary of Significant Accounting Policies and Assumptions.

350 BLEECKER STREET APARTMENT CORPORATION

YEAR ENDING DECEMBER 31, 2004

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

- NOTE A: The financial forecast presents, to the best of management's knowledge and belief, the Company's expected results of operations for the forecast period. Accordingly, the forecast reflects its judgment, as of March 25, 2004, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein, are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.
- NOTE B: Basis of Accounting - The accompanying forecast is presented using the accrual basis of accounting. Income is recorded when earned and expenses are recorded when incurred.
- NOTE C: Income Tax -The Corporation is subject to Federal income tax based on net income. The Corporation is also subject to New York State Franchise tax and New York City corporation tax based on the higher of net income or capital.
- NOTE D: Revenue - Maintenance charges have been computed based on \$92,137 per month reflecting an increase of 3.28% effective January 1, 2004.
- NOTE E: Expenses - Utility increases are due to increases in rates set by the appropriate agencies. Real estate taxes are computed based on the assessed valuation times the current tax rate of 12.62%.
- NOTE F: Debt - The accompanying forecast assumes the following debt:
1. Mortgage Payable - Based on monthly payments of \$20,860 each representing payments of interest only at a rate of 5.89% per annum.