



GREAT NECK TERRACE OWNERS CORP.

Financial Statements and
Supplementary Information

December 31, 2017 and 2016



Certified Public Accountants

GREAT NECK TERRACE OWNERS CORP.

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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Great Neck Terrace Owners Corp.

We have audited the accompanying financial statements of Great Neck Terrace Owners Corp., 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 Great Neck Terrace Owners Corp. 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.

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.

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March 1, 2018

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GREAT NECK TERRACE OWNERS CORP.

BALANCE SHEETS

December 31,	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 577,653	\$ 778,309
Real estate tax escrow (Note 3)	498,599	494,261
Cash - security deposits	53,278	57,372
Receivables (Note 4)	242,645	100,151
Prepaid expenses (Note 5)	<u>59,732</u>	<u>81,313</u>
Total Current Assets	<u>1,431,907</u>	<u>1,511,406</u>
 Reserve fund (Notes 2 and 6)	 <u>9,045,174</u>	 <u>8,845,009</u>
 Property and Improvements: (Notes 2 and 7)		
Land	13,839,010	13,839,010
Building	55,356,042	55,356,042
Building improvements and equipment	<u>12,168,780</u>	<u>11,660,943</u>
Total	81,363,832	80,855,995
Less: accumulated depreciation	<u>55,865,309</u>	<u>53,818,583</u>
Net Property and Improvements	<u>25,498,523</u>	<u>27,037,412</u>
 Other Asset:		
Investment in NCB stock (Note 2)	<u>49,504</u>	<u>49,504</u>
Total Assets	<u>\$ 36,025,108</u>	<u>\$ 37,443,331</u>

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

GREAT NECK TERRACE OWNERS CORP.

BALANCE SHEETS

December 31,	2017	2016
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 179,267	\$ 188,901
Mortgage payable - current portion	529,409	511,496
Real estate tax abatement/exemptions payable	231,430	237,107
Building improvements payable	121,058	57,263
Security deposits payable	73,938	76,424
Accrued mortgage interest	68,741	70,239
Advance maintenance	<u>16,877</u>	<u>28,566</u>
Total Current Liabilities	<u>1,220,720</u>	<u>1,169,996</u>
Long-Term Liability:		
Mortgage payable - net of current portion (Note 8)	22,949,612	23,479,021
Unamortized mortgage finance costs (Note 2)	<u>(174,200)</u>	<u>(199,693)</u>
Total Long-Term Liability	<u>22,775,412</u>	<u>23,279,328</u>
Total Liabilities	<u>23,996,132</u>	<u>24,449,324</u>
Stockholders' Equity		
Common stock - \$1.00 par value, 96,000 shares authorized, 91,759 shares issued and outstanding	91,759	91,759
Paid-in capital in excess of par value	57,730,743	57,730,743
Additional paid-in capital	7,089,325	6,562,829
Accumulated deficit	<u>(52,873,251)</u>	<u>(51,381,724)</u>
Less: treasury stock at cost (Note 9)	<u>(9,600)</u>	<u>(9,600)</u>
Total Stockholders' Equity	<u>12,028,976</u>	<u>12,994,007</u>
Total Liabilities and Stockholders' Equity	<u>\$ 36,025,108</u>	<u>\$ 37,443,331</u>

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

GREAT NECK TERRACE OWNERS CORP.

STATEMENTS OF OPERATIONS

Year Ended December 31,	2017	2016
Revenues		
Maintenance	\$ 7,066,955	\$ 7,014,347
Less: paid-in capital - mortgage amortization	(511,496)	(491,903)
	<u>6,555,459</u>	<u>6,522,444</u>
Transfer fees (Note 2)	96,866	130,856
Laundry income	87,000	82,032
Interest and dividend income	68,457	55,624
Other shareholder fees	56,624	41,413
Parking rental income	53,690	49,531
Apartment rental income	42,071	42,071
Storage rental units	<u>39,273</u>	<u>17,287</u>
Total Revenues	<u>6,999,440</u>	<u>6,941,258</u>
Cost of Operations		
Administrative expenses	Schedule 1 466,751	445,971
Operating expenses	Schedule 2 3,099,918	3,097,306
Repairs and maintenance	Schedule 3 508,033	363,338
Real estate taxes	1,647,124	1,655,656
Mortgage and credit line interest	823,700	843,351
Pool club management and maintenance	105,722	87,345
Corporation taxes	<u>7,193</u>	<u>6,867</u>
Total Cost of Operations	<u>6,658,441</u>	<u>6,499,834</u>
Income from operations before other items and noncash depreciation and mortgage finance interest costs	340,999	441,424
Prior years' storage and parking fees (Note 10)	205,270	-
NCB dividend	<u>34,423</u>	<u>15,219</u>
Income Before Noncash Depreciation and Mortgage Finance Interest Costs	580,692	456,643
Noncash depreciation and mortgage finance interest costs	(2,072,219)	(2,076,133)
Net Loss For The Year	<u>(\$ 1,491,527)</u>	<u>(\$ 1,619,490)</u>

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

GREAT NECK TERRACE OWNERS CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<u>Year Ended December 31,</u>	<u>2017</u>	<u>2016</u>
Common Stock		
Balance - January 1,	\$ 91,759	\$ 91,759
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 91,759</u>	<u>\$ 91,759</u>
Paid-in Capital in Excess of Par Value		
Balance - January 1,	\$ 57,730,743	\$ 57,730,743
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31,	<u>\$ 57,730,743</u>	<u>\$ 57,730,743</u>
Additional Paid-In Capital		
Balance - January 1,	\$ 6,562,829	\$ 6,070,926
Mortgage amortization	511,496	491,903
Sale of parking space	<u>15,000</u>	<u>-</u>
Balance - December 31,	<u>\$ 7,089,325</u>	<u>\$ 6,562,829</u>
Accumulated Deficit		
Balance - January 1,	(\$ 51,381,724)	(\$ 49,762,234)
Net loss for the year	<u>(1,491,527)</u>	<u>(1,619,490)</u>
Balance - December 31,	<u>(\$ 52,873,251)</u>	<u>(\$ 51,381,724)</u>
Treasury Stock		
Balance - January 1, (36 shares)	(\$ 9,600)	(\$ 9,600)
Transactions during year	<u>-</u>	<u>-</u>
Balance - December 31, (36 shares)	<u>(\$ 9,600)</u>	<u>(\$ 9,600)</u>

The accompanying notes are an integral part of this statement.

GREAT NECK TERRACE OWNERS CORP.

STATEMENTS OF CASH FLOWS

Year Ended December 31,	2017	2016
Cash Flows From Operating Activities		
Net loss for the year	(<u>\$ 1,491,527</u>)	(<u>\$ 1,619,490</u>)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation	2,046,726	2,050,640
Mortgage finance interest costs	25,493	25,493
Other changes in operating assets and liabilities that provided (used) cash:		
Real estate tax escrow	(4,338)	25,105
Security deposits	4,094	5,833
Receivables	(142,494)	128,574
Prepaid expenses	21,581	4,316
Accounts payable and accrued expenses	(9,634)	(30,600)
Other current liabilities	(18,864)	(2,244)
Security deposits payable	(2,486)	1,666
Total Adjustments	<u>1,920,078</u>	<u>2,208,783</u>
Cash Provided By Operating Activities	<u>428,551</u>	<u>589,293</u>
Cash Flows From Investing Activities		
Increase in reserve fund	(200,165)	(182,250)
Increase in building improvements and equipment	(507,837)	(262,713)
Increase in building improvements payable	<u>63,795</u>	<u>22,854</u>
Cash Used In Investing Activities	<u>(644,207)</u>	<u>(422,109)</u>
Cash Flows From Financing Activities		
Amortization of mortgage principal	(511,496)	(491,903)
Paid-in capital - mortgage amortization	511,496	491,903
Proceeds from sale of parking space	<u>15,000</u>	<u>-</u>
Cash Provided By Financing Activities	<u>15,000</u>	<u>-</u>
Net change in cash and cash equivalents	(200,656)	167,184
Cash and cash equivalents at beginning of year	<u>778,309</u>	<u>611,125</u>
Cash and cash equivalents at end of year	<u>\$ 577,653</u>	<u>\$ 778,309</u>
Supplemental Disclosures		
Interest paid	\$ 825,198	\$ 844,791
Income taxes paid	\$ 6,937	\$ 6,069

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

GREAT NECK TERRACE OWNERS CORP.

Notes to Financial Statements

Note 1. ORGANIZATION

Great Neck Terrace Owners Corp. (the "Corporation") is a qualified Cooperative Housing Corporation, under Section 216(b)(1) of the Internal Revenue Code, located in Great Neck, New York. Shares and proprietary leases were allocated to apartments on December 9, 1986 (the "Conversion Closing"). The property is comprised of 28 garden apartment buildings containing 648 apartment units and a management office. In addition, there are one-story garage structures, containing indoor garage spaces, outdoor parking spaces and an outdoor pool complex. The primary purpose of the Corporation is to manage the operations of the property and maintain the common elements.

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.

Investments Carrying Values

Investments in Certificates of Deposit have 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 approximate fair value. The investments in Certificates of Deposit had both an aggregate cost basis and aggregate face value of \$250,000 and \$500,000 at December 31, 2017 and 2016, respectively. Money funds are carried at cost which approximate fair value.

Property and Improvements

Property and improvements are stated at cost. The buildings are depreciated on the straight-line method over an estimated life of thirty-five years. Building improvements, equipment and vehicles 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.

For tax purposes, the acquisition of the property is being reported as an exchange pursuant to Section 351 of the Internal Revenue Code. In accordance with the provisions of Section 351, the tax basis of the property is \$27,169,734 which is the carryover basis of the Sponsor at the date of the transfer. Depreciation is recorded on the straight-line method over an estimated life of thirty-five years.

Mortgage Finance Costs

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

Investment in NCB Stock

As a requirement of a mortgage refinancing with National Cooperative Bank ("NCB"), the Corporation purchased \$49,504 of Class B1 stock of the bank. This investment is carried at cost.

Additional Paid-in Capital

Pursuant to the proprietary leases, expenditures for mortgage amortization funded by current maintenance charges constitute additional paid-in capital.

Revenue Recognition

Shareholder maintenance (which includes charges for shares allocated to apartments, parking and storage) 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.

GREAT NECK TERRACE OWNERS CORP.

Notes to Financial Statements

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

Transfer Fees

Upon the transfer of shares, a fee of \$22 per share is payable to the Corporation by the seller. The proceeds derived from such fees are recognized as revenue to the Corporation at the time of transfer.

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 \$20,747,000 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 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 March 1, 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.

GREAT NECK TERRACE OWNERS CORP.

Notes to Financial Statements

Note 3. REAL ESTATE TAX ESCROW

The Corporation deposits a pro-rated monthly sum into an escrow account maintained by National Cooperative Bank ("NCB") for the payment of real estate taxes and direct assessments. At December 31, 2017 and 2016, the real estate tax escrow account had a balance of \$498,599 and \$494,261, respectively.

Note 4. RECEIVABLES

	<u>2017</u>	<u>2016</u>
Shareholders' charges	\$ 237,310	\$ 83,174
Due from vendors	2,130	5,719
Accrued interest income	1,908	2,761
Laundry income	<u>1,297</u>	<u>8,497</u>
Total	<u>\$ 242,645</u>	<u>\$ 100,151</u>

Note 5. PREPAID EXPENSES

	<u>2017</u>	<u>2016</u>
Insurance	\$ 50,087	\$ 68,570
Service contracts	7,236	10,078
Corporation taxes	<u>2,409</u>	<u>2,665</u>
Total	<u>\$ 59,732</u>	<u>\$ 81,313</u>

Note 6. RESERVE FUND

The reserve fund is invested as follows:

	<u>2017</u>	<u>2016</u>
NCB capital reserve escrow	\$ 6,708,833	\$ 6,652,037
Metropolitan Commercial Bank demand deposit marketplace	1,322,065	-
Capital One business money market	519,157	384,718
Metropolitan Commercial Bank money market	245,117	-
Wells Fargo Advisors:		
Certificates of Deposit at varying rates and maturities	250,000	500,000
Money funds	<u>2</u>	<u>1,308,254</u>
Total	<u>\$ 9,045,174</u>	<u>\$ 8,845,009</u>

NCB Capital Reserve Escrow

Under the terms of the mortgage (see Note 8), the Corporation was required to execute a Collateral Security Agreement for Capital Improvements where the Corporation agreed to deposit \$7,000,000 (the "Collateral Security") with NCB. The Collateral Security shall be disbursed according to the terms of such agreement. The Collateral Security Agreement details that the included capital improvement work includes: retaining walls, garage, sidewalks, walkways, parking lots, facades, appurtenances, main entrances, fire escapes, boilers, plumbing and other capital improvements or repairs warranted by change in condition to improvements, as reasonably approved by NCB.

Required Reserves

In accordance with the terms of the mortgage, the Corporation is required to maintain combined working capital and replacement reserves in an amount equal to at least ten percent of the previous year's maintenance charges to shareholders. Any reduction in such general operating and replacement reserves must be replaced within 180 days. At December 31, 2017, based on 2017 maintenance charges, the required amount to be maintained in reserves equaled approximately \$706,700.

GREAT NECK TERRACE OWNERS CORP.

Notes to Financial Statements

Note 7. PROPERTY AND IMPROVEMENTS

Building improvements were capitalized as follows:	<u>2017</u>	<u>2016</u>
Parking lot restoration project - in progress	\$ 305,735	\$ 16,033
Playground project	108,063	-
Roof replacements - in progress	74,704	3,850
Security equipment	12,810	-
Fire alarm system upgrades - consultant	6,525	-
Lighting upgrades	-	206,630
Plumbing upgrades	-	<u>36,200</u>
Total	<u>\$ 507,837</u>	<u>\$ 262,713</u>

Contract Commitments

In addition to building improvements payable of \$121,058 at December 31, 2017, the Corporation is committed to completing the parking lot restoration project in the approximate amount of \$578,000 and the roof replacement project in the approximate amount of \$378,000. Such projects are subject to change orders and professional fees as work progresses.

Note 8. MORTGAGE PAYABLE

The mortgage is held by National Cooperative Bank ("NCB") in the original principal amount of \$25,000,000. Terms require equal monthly installments of \$110,870 applied first to interest at the rate of 3.4% per annum and the balance as a reduction of principal based on a thirty year amortization schedule. The mortgage matures on November 1, 2024 at which time the unpaid principal balance of approximately \$19,474,365 plus accrued interest, if any, will have to be extended, refinanced or retired.

Principal payments due on the mortgage payable over the next five years are as follows:

2018	\$ 529,409
2019	547,950
2020	564,978
2021	586,927
2022	607,483
Thereafter	20,642,274

Prepayment Terms

The mortgage may be prepaid in whole only, subject to a prepayment premium calculated at the greater of 1% of the outstanding principal or yield maintenance through April 29, 2024. From April 30, 2024 through July 30, 2024, the prepayment premium shall be 1% of the outstanding principal amount. There shall be no prepayment premium from July 31, 2024 through maturity.

Line of Credit

The Corporation maintains a revolving line of credit with NCB with a maximum draw of \$2,500,000. Terms of the loan require payments of principal in the minimum amount of \$100 plus interest (on funds drawn from the credit line) at the rate of 3.75% above the 30 day Libor rate with a floor of 3.9% on the first day of the calendar month immediately following the month in which the borrower receives the first loan advance and each and every month thereafter until November 1, 2024. Principal advances must be in minimum increments of not less than \$10,000. As of the balance sheet date, no funds have been drawn.

GREAT NECK TERRACE OWNERS CORP.

Notes to Financial Statements

Note 9. **TREASURY STOCK**

At December 31, 2017 and 2016, the Corporation held 36 shares of treasury stock allocated to 6 parking spaces in each year.

Note 10. **PRIOR YEARS' STORAGE AND PARKING FEES**

During 2017, the Corporation retroactively charged \$172,390 to existing shareholders for previously unbilled storage and parking fees. In addition, the management company reimbursed the Corporation a total of \$32,880 representing unbilled fees for former shareholders. These retroactive fees were recorded in the Statement of Operations for the year ended December 31, 2017.

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	\$101,626
Year ended December 31, 2016	\$ 96,585
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

*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.

Notes to Financial Statements

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

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. RELATED PARTY TRANSACTION

At December 31, 2017 and 2016, Great Neck Terrace Associates owned 16,251 and 16,881 shares which represent approximately 17.7% and 18.4% of the total outstanding shares, respectively. Great Neck Terrace Limited Liability Company (a division of James Development) owned 4,997 and 5,127 shares which represent approximately 5.4% and 5.6% of the total outstanding shares, respectively.

Note 13. 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 14. LEGAL MATTERS

The Corporation is involved in a legal matter arising in the ordinary course of business. This claim has been submitted to the Corporation's insurance carrier. As the ultimate outcome of this action cannot yet be determined and cannot be definitively predicted by counsel, these financial statements do not provide for any liabilities, if any, which may arise from this action.

The Corporation is also involved in a legal matter with a shareholder/plaintiff who claims that there is a dangerous mold condition in her apartment due to the Corporation's failure to remediate water damage. The plaintiff claims monetary damages of \$500,000. The Corporation, however, has counterclaims for the nuisance which the shareholder has created due to odors emanating from her apartment and for which she fails to abate and cure. The matter is currently in the discovery phase of litigation. As the ultimate outcome of this action cannot yet be determined and cannot be definitively predicted by counsel, these financial statements do not provide for liabilities, if any, which may arise from this action.

SUPPLEMENTARY AND PROSPECTIVE INFORMATION



Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY AND PROSPECTIVE INFORMATION

To The Board of Directors and Shareholders
Great Neck Terrace Owners Corp.

We have audited the financial statements of Great Neck Terrace Owners Corp. as of and for the years ended December 31, 2017 and 2016, and our report thereon dated March 1, 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

March 1, 2018 for Historical Statements
December 19, 2017 for Budget Forecast

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GREAT NECK TERRACE OWNERS CORP.

SUPPORTING SCHEDULES - STATEMENTS OF OPERATIONS

Year Ended December 31,	2017	2016
Administrative Expenses:		
	Schedule 1	
Management fee	\$ 305,784	\$ 298,355
Professional fees	79,541	79,351
Other administrative expenses	69,096	54,888
Telephone and communications	<u>12,330</u>	<u>13,377</u>
Total Administrative Expenses	<u>\$ 466,751</u>	<u>\$ 445,971</u>

Operating Expenses:		
	Schedule 2	
Utilities		
Gas heat	\$ 372,403	\$ 375,987
Water and sewer	319,391	348,159
Electricity and gas	<u>136,165</u>	<u>154,832</u>
	<u>827,959</u>	<u>878,978</u>
Labor		
Wages	1,082,417	1,064,150
Union benefits	436,501	424,081
Workers' compensation and disability insurance	191,118	178,749
Payroll taxes	<u>89,421</u>	<u>88,664</u>
	<u>1,799,457</u>	<u>1,755,644</u>
Other		
Insurance	327,160	310,761
Security	121,967	121,713
Other operating and permits	<u>23,375</u>	<u>30,210</u>
	<u>472,502</u>	<u>462,684</u>
Total Operating Expenses	<u>\$ 3,099,918</u>	<u>\$ 3,097,306</u>

Repairs and Maintenance:		
	Schedule 3	
Materials and supplies	\$ 146,816	\$ 122,395
Exterminating	44,079	39,245
Plumbing and heating	43,568	13,594
Roof and exterior repairs	37,311	9,032
Rubbish removal	31,309	31,309
Grounds	29,828	59,530
Alarm system contract and repairs	29,773	37,215
Equipment repairs and other	29,084	13,806
Auto repairs and maintenance	29,044	15,436
Doors, locks and windows	26,482	7,587
Intercom and electrical	20,027	12,259
Uniforms	5,047	1,930
Painting, plastering and flooring	4,100	-
Special repair - management office	<u>31,565</u>	<u>-</u>
Total Repairs and Maintenance	<u>\$ 508,033</u>	<u>\$ 363,338</u>

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

GREAT NECK TERRACE OWNERS CORP.

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

	<u>For The Year</u>		<u>Prior Year</u>	<u>Next Year</u>
	<u>January 1, 2017 - December 31, 2017</u>		<u>January 1, 2016 -</u>	<u>January 1, 2018 -</u>
	<u>Budget</u>	<u>Actual</u>	<u>December 31, 2016</u>	<u>December 31, 2018</u>
	(Unaudited)		Actual	Budget Forecast (Unaudited)
REVENUES				
Maintenance (1)	\$ 7,067,000	\$ 7,066,955	\$ 7,014,347	\$ 7,173,000
Laundry income	87,000	87,000	82,032	87,000
Interest and dividend income	5,000	68,457	55,624	5,000
Other shareholder fees	64,200	56,624	41,413	89,000
Parking rental income	47,500	53,690	49,531	49,200
Apartment rental income	42,100	42,071	42,071	42,100
Storage rental units	<u>11,400</u>	<u>39,273</u>	<u>17,287</u>	<u>52,200</u>
TOTAL REVENUES	<u>7,324,200</u>	<u>7,414,070</u>	<u>7,302,305</u>	<u>7,497,500</u>
EXPENSES				
Management fee	308,800	305,784	298,355	313,400
Professional fees	88,600	79,541	79,351	101,900
Other administrative expenses	56,600	69,096	54,888	56,500
Telephone and communications	12,000	12,330	13,377	10,000
Gas heat	464,500	372,403	375,987	461,100
Water and sewer	351,900	319,391	348,159	367,900
Electricity and gas	159,700	136,165	154,832	155,100
Wages and employee benefits	1,829,100	1,799,457	1,755,644	1,855,100
Insurance	325,600	327,160	310,761	380,400
Security	122,100	121,967	121,713	132,600
Other operating and permits	17,200	23,375	30,210	15,000
Repairs and maintenance	422,700	508,033	363,338	421,400
Real estate taxes	1,736,100	1,647,124	1,655,656	1,771,900
Mortgage interest and amortization	1,330,400	1,328,946	1,329,004	1,330,400
Credit line interest	6,200	6,250	6,250	6,300
Pool club management and maintenance	85,700	105,722	87,345	111,000
Corporation taxes	<u>7,000</u>	<u>7,193</u>	<u>6,867</u>	<u>7,500</u>
TOTAL EXPENSES	<u>7,324,200</u>	<u>7,169,937</u>	<u>6,991,737</u>	<u>7,497,500</u>
Budgeted Surplus	<u>\$ -0-</u>			<u>\$ -0-</u>
INCOME FROM OPERATIONS BEFORE OTHER ITEMS		244,133	310,568	
Prior years' storage and parking fees (Note 10)		205,270	-	
Transfer fees (Note 2)		96,866	130,856	
NCB dividend		<u>34,423</u>	<u>15,219</u>	
INCOME BEFORE NONCASH DEPRECIATION AND MORTGAGE FINANCE INTEREST COSTS		<u>\$ 580,692</u>	<u>\$ 456,643</u>	

(1) Includes maintenance charges on allocated shares to apartments, parking and storage.

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

GREAT NECK TERRACE OWNERS CORP.

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 \$6.51 per share per month which reflects a 1.5% increase over the previous level.

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 and union benefits costs are forecasted based upon estimated contract rates.

Repairs and Maintenance

Based upon historical experience and expected maintenance requirements.

Real Estate Tax

Based upon an approximate 7.58% increase from 2017.