

NAGLE APARTMENTS CORP.
(A Cooperative Housing Corporation)

FINANCIAL STATEMENTS
Year Ended December 31, 1997

NAGLE APARTMENTS CORP.**CONTENTS**

Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Operations	4
Supporting Schedules - Statement of Operations	5
Statements of Changes in Stockholders' Equity	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information:	
Comparative Data: Actual vs. Budget	14



PRISAND-NEWMAN

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders
NAGLE APARTMENTS CORP.
31, 37 Nagle Avenue
14 Bogardus Place
New York, NY 10040

We have audited the accompanying balance sheet of NAGLE APARTMENTS CORP. as of December 31, 1997, and the related statements of operations (with supporting schedules), changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 NAGLE APARTMENTS CORP. as of December 31, 1997, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

NAGLE APARTMENTS CORP. has not presented the supplementary information on future major repairs and replacements 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above. The budget information included in the comparative data on page 14 is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

March 9, 1998

NAGLE APARTMENTS CORP.BALANCE SHEETAS OF DECEMBER 31, 1997ASSETSCURRENT ASSETS

Cash and cash equivalents:

Operating account	\$ 12,817	
Working capital money market account	<u>125,747</u>	\$ 138,564

Receivables:

Maintenance - apartments	41,329	
Due from insurance company	4,329	
Rental income	2,008	
Other	<u>338</u>	48,004

Prepaid expenses:

Real estate tax	29,335	
Water and sewer	18,926	
Insurance	7,509	
Interest	6,422	
Fuel inventory	<u>1,681</u>	63,873

Escrows:

Mortgage escrow	11,131	
Receivership escrow	<u>63,518</u>	<u>74,649</u>

TOTAL CURRENT ASSETS

325,090

PROPERTY AND IMPROVEMENTS (Note 2)

Land	316,950	
Building	1,796,050	
Building improvements	<u>217,541</u>	
Total	2,330,541	
Less: accumulated depreciation	(<u>903,990</u>)	

NET PROPERTY AND IMPROVEMENTS 1,426,551OTHER ASSET

Notes receivable (Note 5)	<u>62,358</u>	
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TOTAL ASSETS \$ 1,813,999

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.BALANCE SHEETAS OF DECEMBER 31, 1997LIABILITIESCURRENT LIABILITIES

Accounts payable	\$ 98,690
Due to receiver	64,246
Building improvements payable	51,066
Accrued mortgage interest	12,167
Advance maintenance	<u>5,316</u>
TOTAL CURRENT LIABILITIES	\$ 231,485

LONG-TERM LIABILITIES

Mortgage payable (Note 4)	1,825,000
Security deposits payable	<u>4,951</u>
TOTAL LONG-TERM LIABILITIES	<u>1,829,951</u>
TOTAL LIABILITIES	2,061,436

STOCKHOLDERS' EQUITY

Common stock - \$1.00 par value, 15,000 shares authorized, 12,120 shares issued	12,120
Paid-in capital in excess of par value	175,880
Paid-in capital from treasury stock (Note 5)	46,252
Accumulated deficit	(452,760)
Less: Treasury stock at cost (775 shares) (Note 5)	(28,929)
TOTAL STOCKHOLDERS' EQUITY	(247,437)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,813,999

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.STATEMENT OF OPERATIONSFOR THE YEAR ENDED DECEMBER 31, 1997REVENUE

Maintenance	\$ 620,228
Garage income	43,895
Interest income	6,047
Late and other fees	5,104
Laundry	4.851
TOTAL REVENUE	\$ 680,125

COST OF OPERATIONS

Administrative expenses	Schedule 1	122,316
Operating expenses	Schedule 2	199,549
Repairs and maintenance	Schedule 3	43,153
Taxes	Schedule 4	109,797
Financial expenses	Schedule 5	147,783
TOTAL COST OF OPERATIONS		622,598

INCOME FROM OPERATIONS BEFORE SPECIAL ITEMS
AND DEPRECIATION EXPENSE 57,527

Receiver's commission and legal fees	(64,246)
Unsold unit expenses	Schedule 6	(30,389)
LOSS BEFORE DEPRECIATION EXPENSE		(37,108)
Depreciation expense	Schedule 7	(52,329)
NET LOSS FOR THE YEAR		(\$ 89,437)

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.SUPPORTING SCHEDULES - STATEMENT OF OPERATIONSFOR THE YEAR ENDED DECEMBER 31, 1997ADMINISTRATIVE EXPENSESSchedule 1

Legal	\$ 83,543
Management fee	22,340
Auditing	5,500
Other administrative	5,212
Telephone and communications	4,079
Other professional fees	<u>1,642</u>
TOTAL ADMINISTRATIVE EXPENSES	\$ 122,316

OPERATING EXPENSESSchedule 2Energy

Fuel	\$ 30,180
Electricity	13,944
Gas	<u>9,706</u>

\$ 53,830

Payroll

Wages	68,293
Union benefits	8,448
Payroll taxes	5,745
Workers' compensation and disability insurance	<u>3,885</u>

86,371

Other

Water and sewer charges	34,636
Insurance	18,920
Permits and miscellaneous operating	<u>5,792</u>

59,348**TOTAL OPERATING EXPENSES****\$ 199,549**REPAIRS AND MAINTENANCESchedule 3

Materials and supplies	\$ 11,713
Elevator contract and repair	9,730
Heating and boiler repairs	5,269
Grounds and plant maintenance	3,254
Intercom	2,757
Equipment repair	2,706
Exterminating	2,490
Painting, plastering and flooring	2,370
Doors, locks and window	1,480
Electrical repair	<u>1,384</u>

\$ 43,153

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.
SUPPORTING SCHEDULES - STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997

TAXES

New York City real estate tax	\$ 109,407
Corporation tax	<u>390</u>
	<u><u>\$ 109,797</u></u>

TOTAL TAXESSchedule 4FINANCIAL EXPENSES

Mortgage interest	\$ 147,333
Other interest	<u>450</u>
	<u><u>\$ 147,783</u></u>

TOTAL FINANCIAL EXPENSESSchedule 5UNSALE UNIT EXPENSES

Rental income	\$ 24,753
Maintenance on unsold units	<u>(55,142)</u>
	<u><u>(\$ 30,389)</u></u>

DEPRECIATION EXPENSE

Building	\$ 49,053
Building improvements	<u>3,276</u>
	<u><u>\$ 52,329</u></u>

TOTAL DEPRECIATION EXPENSESchedule 7

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1997

COMMON STOCK

Balance - January 1, 1997	\$ 12,120
Transactions during the year	<u> </u>
Balance - December 31, 1997	<u>\$ 12,120</u>

PAID-IN CAPITAL IN EXCESS OF PAR VALUE

Balance - January 1, 1997	\$ 175,880
Transactions during the year	<u> </u>
Balance - December 31, 1997	<u>\$ 175,880</u>

PAID-IN CAPITAL FROM TREASURY STOCK

Balance - January 1, 1997	\$
Sale of 685 shares of treasury stock in excess of allocated cost	<u>46,252</u>
Balance - December 31, 1997	<u>\$ 46,252</u>

ACCUMULATED DEFICIT

Balance - January 1, 1997	(\$ 363,323)
Net loss for the year	<u>(89,437)</u>
Balance - December 31, 1997	<u>(\$ 452,760)</u>

TREASURY STOCK

Balance - January 1, 1997 (960 shares)	(\$ 43,528)
Acquisition of 500 shares at cost	<u>(32,825)</u>
Sale of 685 shares at allocated cost	<u>47,424</u>
Balance - December 31, 1997 (775 shares)	<u>(\$ 28,929)</u>

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.STATEMENT OF CASH FLOWSFOR THE YEAR ENDED DECEMBER 31, 1997CASH FLOWS FROM OPERATING ACTIVITIES

Net loss for the year	(\$ 89,437)
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Adjustments to reconcile net income to
cash provided by operating activities:

Depreciation and amortization	\$ 52,329
Decrease in receivables	94,497
Decrease in prepaid expenses	9,395
Increase in escrow accounts	(35,048)
Increase in accounts payable	32,203
Decrease in other current liabilities	(37,389)
Increase in security deposits payable	<u>3,536</u>
Total Adjustments	<u>119,523</u>

<u>CASH PROVIDED BY OPERATING ACTIVITIES</u>	30,086
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CASH FLOWS FROM INVESTING ACTIVITIES

Decrease in utility deposits	4,410
Proceeds from notes receivable	448
Increase in building improvements	(122,036)
Increase in building improvements payable	<u>44,220</u>
<u>CASH USED BY INVESTING ACTIVITIES</u>	(72,958)

CASH FLOWS FROM FINANCING ACTIVITIES

Decrease in mortgage payable	(25,000)
Acquisition of treasury stock	(2,206)
Proceeds from sale of treasury stock	<u>30,870</u>
<u>CASH PROVIDED BY FINANCING ACTIVITIES</u>	<u>3,664</u>

<u>NET CHANGE IN CASH AND CASH EQUIVALENTS</u>	(39,208)
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Cash and cash equivalents - January 1, 1997	<u>177,772</u>
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<u>CASH AND CASH EQUIVALENTS</u> - December 31, 1997	<u>\$ 138,564</u>
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The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.STATEMENT OF CASH FLOWSFOR THE YEAR ENDED DECEMBER 31, 1997SUPPLEMENTAL DISCLOSURES

Interest paid	\$ 127,895
Corporation taxes paid	\$ 3,875

Beginning cash and cash equivalents have been restated to conform to this year's classification.

NONCASH TRANSACTIONS

Included in the cost of treasury stock is a credit of outstanding arrears in the amount of \$30,619.

The sale of treasury stock included notes receivable in the amount of \$62,806.

The accompanying notes are an integral part of this statement.

NAGLE APARTMENTS CORP.NOTES TO FINANCIAL STATEMENTSAS OF DECEMBER 31, 1997Note 1 - ORGANIZATION

On May 20, 1980, NAGLE APARTMENTS CORP. (the "Corporation") was formed in order to acquire the property at 31, 37 Nagle Avenue, 14 Bogardus Place, New York, New York. The Corporation acquired the land and building on August 3, 1982. It is a qualified Cooperative Housing Corporation under Section 216(b)(1) of the Internal Revenue Code and contains 111 apartments. The primary purpose of the Corporation is to manage the operations of the property and maintain the common elements.

At the balance sheet date, Ellwood Gardens Company (the "Sponsor") owned 1,790 shares which represent 15.8% of the total shares issued.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESBasis of Presentation and Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles on the accrual basis. The preparation of financial statements in conformity with generally accepted accounting principles 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.

Property and Improvements

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

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 periods.

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 and estimates of the costs of major repairs and replacements that may be required. 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.

NAGLE APARTMENTS CORP.NOTES TO FINANCIAL STATEMENTSAS OF DECEMBER 31, 1997Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)Statement of Cash Flows

Cash and cash equivalents are stated at cost which approximates market. The Corporation considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

Note 3 - SPONSOR SETTLEMENT AGREEMENT

On January 29, 1997, the Corporation and the Sponsor entered into a settlement agreement dated as of September 1, 1996. In accordance with the agreement, the following occurred among other things:

1. Sponsor paid \$100,000 to the Corporation in reduction of the original purchase price of the property. The Corporation made a \$100,000 prepayment of the wrap-around mortgage reducing the principal amount to \$1,850,000. In addition, the wrap-around mortgage was extended and modified as discussed in Note 4.
2. The Corporation agreed that if the existing garage tenant's lease is modified to provide for additional annual base rent in excess of \$9,250 per month, the excess amount is to be paid to the Sponsor as additional interest on the wrap-around mortgage.
3. Sponsor transferred 130 shares of stock appurtenant to one apartment to the Corporation. In addition, Sponsor transferred nine units to 3114 Naglebog, LLC (an "investor"). Under the terms of the agreement, the investor is required to have sold all owned units by September 1, 2001.
4. Sponsor paid \$100,000 to the Corporation representing unpaid maintenance charges.

Accordingly, as of the date of the date of this report, all claims between the Sponsor and the Corporation have been resolved and as of January 31, 1997 the receivership of the property was terminated.

Note 4 - MORTGAGE PAYABLE

Pursuant to the settlement agreement between the Corporation and the Sponsor, the wrap-around mortgage payable to Ellwood Gardens Company and 20-20 Realty Corp. has been extended and modified as of September 1, 1996. The new principal balance of \$1,850,000 bears interest at the rate of 8% per annum. The Corporation has the right to prepay a maximum of \$25,000 in each year of the mortgage. Prepayments may be cumulative so that if such right is not exercised in any one or more loan years, the amount may be carried forward and added to the amount that may be prepaid in a future loan year. At December 31, 1997, the Corporation paid down \$25,000 of the original mortgage. The mortgage may be fully prepaid at any time after September 1, 2003. Terms of the loan require interest only payments on the outstanding principal balance. The loan matures August 31, 2006.

Prior to the extension and modification, the Corporation was subject to the provisions of a wrap-around mortgage of \$1,950,000. Terms of the mortgage required constant monthly installments of \$14,625 applied to interest only at the rate of 9% per annum.

NAGLE APARTMENTS CORP.NOTES TO FINANCIAL STATEMENTSAS OF DECEMBER 31, 1997Note 5 - ACQUISITION AND SALE OF TREASURY STOCKAcquisition:

The following schedule summarizes the acquisition of treasury stock shares:

	<u>Shares</u>	<u>Cost</u>
Prior to 1995	105	17,447
1995	595	24,174
1996	260	1,905
1997	<u>500</u>	<u>32,825</u>
<u>Totals</u>	<u>1,460</u>	<u>76,351</u>

Sales:

During 1997, the Corporation closed on the sale of 685 shares of treasury stock appurtenant to six apartments for a gross sales price of \$120,500. Closing and selling costs amounted to \$26,824. The Corporation received net proceeds of \$30,870 and financed notes receivable in the original amount of \$62,806. Terms of the notes require equal monthly installments applied to interest at the rate of 8% per annum and the balance as a reduction of principal pursuant to seven, fifteen and twenty year amortization schedules.

At December 31, 1997, the Corporation held 775 shares of treasury stock appurtenant to seven apartments. The monthly shortfall on the seven apartments is approximately \$2,102.

Note 6 - CORPORATION TAXES

The Corporation has incurred net operating losses for tax purposes since the date of inception. As a result, the Corporation is not subject to Federal income tax on the next losses, and such losses are available to be carried forward to future tax periods. Federal income tax is computed pursuant to Subchapter T of the Internal Revenue Code. New York State Franchise tax and New York City Corporate Tax is calculated by utilizing special tax rates available to cooperative housing corporation, based on the corporation's capital base.

Note 7 - 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.

Note 8 - LEGAL MATTERS

The Corporation has billed real estate escalations of \$25,333 and additional interest in the amount of \$8,539 to the garage tenant. Such charges have not been paid and is the subject of litigation between the Corporation and the garage tenant. Motions are pending and counsel for the Corporation cannot predict the outcome at this time.

SUPPLEMENTARY INFORMATION

NAGLE APARTMENTS CORP.COMPARATIVE DATA: ACTUAL VS. BUDGET

	For The Year January 1, 1997	Prior Year January 1, 1996	Next Year January 1, 1998
	December 31, 1997	December 31, 1996	December 31, 1998
	Actual	Actual	Budget
		(Unaudited)	(Unaudited)

REVENUE

Maintenance	\$ 620,228	\$ 620,248	\$ 620,200
Garage income	43,895	33,000	43,500
Interest income	6,047	4,350	-
Late and other fees	5,104	11,497	1,300
Laundry	4,851	5,969	5,700
TOTAL REVENUE	680,125	675,064	670,700

EXPENDITURES

Legal	83,543	80,672	27,500
Management fee	22,340	32,075	21,000
Auditing	5,500	6,000	5,500
Other administrative	5,212	9,151	6,500
Telephone and communications	4,079	1,835	3,000
Other professional fees	1,642	7,400	3,020
Fuel	30,180	32,998	27,500
Gas and electricity	23,650	39,627	30,000
Wages	68,293	63,108	66,200
Union benefits	8,448	9,537	9,100
Payroll taxes	5,745	5,751	6,000
Workers' comp. & dbl insurance	3,885	5,911	3,500
Water and sewer charges	34,636	26,541	37,850
Insurance	18,920	29,012	15,180
Permits and miscellaneous operating	5,792	9,353	3,000
Repairs and maintenance	43,153	49,978	38,765
Real estate tax	109,407	120,624	110,000
Corporation taxes	390	6,049	3,875
Mortgage interest	172,333	132,333	170,000
Other interest	450	22,542	-
Contingency/reserve funding	-	-	18,500
TOTAL EXPENDITURES	647,598	690,497	605,990

BUDGETED SURPLUS 64,710

<u>ACTUAL OPERATING INCOME (LOSS)</u>	32,527	(15,433)	-
Add: Mortgage pay-down	25,000	-	25,000
Prior year settlement income	-	104,097	-
Less: Receiver's commission and legal fees	(64,246)	-	-
Unsold unit expenses	(30,389)	(6,595)	(13,750)
Prior years' bad debt expense	-	(28,678)	-
(LOSS) INCOME BEFORE DEPRECIATION	(\$ 37,108)	\$ 53,391	\$ 75,960