

TWENTY-SECOND AMENDMENT

TO

OFFERING PLAN FOR
COOPERATIVE OWNERSHIP

OF

WARNER HOUSE
67-41 BURNS STREET
FOREST HILLS, NEW YORK

DATED: June 23, 2016

THIS AMENDMENT MODIFIES AND SUPPLEMENTS THE TERMS OF THE ORIGINAL OFFERING PLAN DATED MAY 12, 1983 AND THE FIRST THROUGH TWENTY-FIRST AMENDMENTS THERETO AND SHOULD BE READ IN CONJUNCTION WITH SAID OFFERING PLAN AND PRIOR AMENDMENTS.

67-41 BURNS STREET
FOREST HILLS, NEW YORK

TWENTY-SECOND AMENDMENT TO THE OFFERING PLAN
TO CONVERT TO COOPERATIVE OWNERSHIP

This Amendment modifies and supplements the terms of the Offering Plan dated May 12, 1983 and the First through Twenty-First Amendments thereto and should be read in conjunction with the Offering Plan and prior Amendments. The Offering Plan and prior Amendments are hereinafter collectively referred to as the Plan.

The terms of this Twenty-Second Amendment are as follows:

A. FINANCIAL DISCLOSURES

The following financial disclosure information is provided pursuant to 13 NYCRR, Sec. 18.5(c):

1. Arbern Forest Hills Apartments LLC (“the Holder”) owns 4,472 shares allocated to 14 apartments. This constitutes 14.45% of the total shares in the building. Annexed hereto as Exhibit A is a List of Unsold Shares.
2. The aggregate monthly maintenance payable for all shares owned by Holder is \$9,601.37. The monthly maintenance per share is \$2.15.
3. The aggregate monthly rents received from tenants of all units owned by Holder in the building are \$14,578.83.
4. Except for Holder's obligation to pay monthly maintenance, there are no financial obligations that will become due to the Apartment Corporation within twelve (12) months from the date of this Amendment. Holder is current on all other financial obligations under the Plan.
5. The unsold shares are not subject to a financing commitment.
6. The payments or obligations disclosed in paragraphs 2 and 5 of this Amendment will be funded from the revenues generated from the rental of Holder-owned units in the building and projected sales of such units. If there are no sales, or fewer sales than expected, Holder currently has the resources to meet its obligations disclosed in Paragraph 2 of this Amendment, but Holder is

posting no security for the funding of and makes no representations about said obligations in the future. However, nothing stated above should be construed so that the undersigned incurs any additional obligations other than its present obligations.

7. As of the date hereof and during the twelve (12) month period before the filing date of this Amendment, the Holder is and was current on all financial obligations under the Plan, including, but not limited to, maintenance, reserve or working capital fund payments, assessments, and payments for repairs or improvements promised in the Plan.

8. Holder pays its maintenance in a timely fashion, and is aware that under Section 352-1 of the General Business Law a cooperative corporation may collect rents directly from the tenant of a dwelling unit owned by a non-occupying owner if maintenance, assessments or late fees are not paid within certain prescribed periods.

9. Annexed to the Amendment as Exhibit B is a list of all buildings in which Holder or the principal of Holder, as individual holder of unsold shares (or units) or as a general partner or principal of the Holder or holder owns more than 10% of the shares (or units). The Offering Plans for these buildings are on file with the Department of Law and are available for public inspection.

10. The Holders of the buildings listed in Exhibit B are current on their respective financial obligations under the respective Offering Plans.

11. The Board of Directors is made up of seven (7) members. The Holder is not in control of the Board of Directors. The current seven members of the Board of Directors are, Lawrence Bernstein, Leah Janeresh, Thomas Martinez, Caryn Ross, Rodica Soreni, and Eliana Villafuerte. There is one vacancy. Lawrence Bernstein is the sole Holder appointee.

B. CERTIFIED FINANCIAL STATEMENTS

Annexed to this Amendment as Exhibit C is the Certified Financial Statements for the years ending December 31, 2015 and 2014 and December 31, 2014 and 2013.

C. BUDGET

Annexed to this Amendment as Exhibit D is the 2016 Budget. To balance the Budget, the Board intends to authorize an approximately \$3.00 per share assessment in 2016. This assessment may have been offset by shareholders who are eligible for the annual New York City tax assessment abatement for cooperatives as well additional programs through New York City for tax relief. The corporation will finalize the assessment upon receipt from the City of the final abatement information.

D. INCREASE IN PURCHASE PRICE

The purchase price per share is hereby increased from \$850.00 to \$1000.00 for all remaining studio and one-bedroom apartments and from \$950.00.00 to \$1000.00 for all remaining two-bedroom or larger apartments. The unsold units and their respective price adjustments are set forth in Exhibit E, annexed hereto.

E. DEFINITIONS

All terms in this Amendment not otherwise defined herein shall have the meanings ascribed to them in the Plan.

F. NO OTHER MATERIAL CHANGES

Except as set forth in this Amendment, there have been no material changes in the Plan.

Dated: June 23, 2016
Brooklyn, New York

ARBERN FOREST HILLS APARTMENTS
LLC

S/Lawrence.Bernstein
Lawrence Bernstein
Manager

EXHIBIT A

List of Unsold Shares

Burns Street Unit Schedule

Apt	Shares
102	295
202	298
216	298
217	199
304	300
316	300
403	282
407	333
412	302
505	304
506	456
606	459
609	338
614	308
	4472

EXHIBIT B

<u>ADDRESS OF PROPERTY §</u>	<u>HOLDER OF UNSOLD SHARES</u>	<u>LOCATION</u>
207 OCEAN PARKWAY	ARBERN 207-227 OCEAN PARKWAY LLC	BROOKLYN, NY
125 EASTERN PARKWAY	ARBERN 125 EASTERN PARKWAY LLC	BROOKLYN, NY
310 WINDSOR PLACE	ARBERN WINDSOR APARTMENTS LLC	BROOKLYN, NY
135 PROSPECT PARK W	TRS HOLDINGS LLC	BROOKLYN NY
94-11 59 TH AVENUE	ARBERN 94-11 59 TH AVENUE LLC	REGO PARK, NY
66-15 WETHEROLE STREET	ARBERN WETHEROLE APARTMENTS LLC	REGO PARK, NY
67-41 BURNS STREET	ARBERN FOREST HILLS APARTMENTS LLC	FOREST HILLS, NY
76-10 34 TH AVENUE	ARBERN VERSAILLES APARTMENTS LLC	JACKSON HEIGHTS, NY
*BOULEVARD TENANTS	ARBERN BOULEVARD APARTMENTS LLC	FOREST HILLS, NY

§ Arbern Realty Company is the sole member of the respective limited liability companies. The partners of Arbern Realty are Terry S. Bernstein, Rosebern Realty Family Limited Partnership, Deena Bernstein, Lawrence Bernstein and Bradley Bernstein.

* Multiple building complex comprised of 64-35 Yellowstone Boulevard, 105-25 65th Avenue, 105-24 64th Road, 105-37 65th Avenue & 105-38 64th Road

EXHIBIT C

Certified Financial Statements for the years ending
December 31, 2015 and 2014 and
December 31, 2014 and 2013

**WARNER HOUSE OWNERS CORP.
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
AND
INDEPENDENT AUDITORS' REPORT**

SANDLER, ROSENGARTEN, DENIS & BERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

WARNER HOUSE OWNERS CORP.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Warner House Owners Corp.

We have audited the accompanying financial statements of Warner House Owners Corp., which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of operations, statements of accumulated deficit, and cash flows - all income tax basis - 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 the basis of accounting the Company uses for income tax purposes described in Note A-1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 Warner House Owners Corp. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes as described in Note A-1.

Basis of Accounting

We draw attention to Note A-1 to the financial statements, which describes the basis of accounting. These financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than generally accepted accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Omission of required supplementary information about future major repairs and replacements.

As discussed in the notes to the financial statements, the Company has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of future 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. Our opinion on the basic financial statements is not affected by the missing information.

Sandler, Rosengarten, Davis & Bergs LLP

Great Neck, New York
May 17, 2016

Warner House Owners Corp.
BALANCE SHEETS – INCOME TAX BASIS
December 31, 2015 and 2014

ASSETS	2015	2014
Land and building		
Land	\$ 573,470	\$ 573,470
Building and improvements	<u>4,295,260</u>	<u>4,295,260</u>
	4,868,730	4,868,730
Less: accumulated depreciation	<u>(3,522,151)</u>	<u>(3,396,141)</u>
	1,346,579	1,472,589
Cash - operating	139,616	38,866
Cash - money market	122,449	122,337
Cash - certificate of deposit	127,092	124,935
Accounts receivable	742	23,857
Mortgage escrow	67,139	22,166
Prepaid expenses	14,289	65,682
Mortgage refinancing costs, net of amortization of \$17,504 in 2015 and \$13,035 in 2014	<u>27,189</u>	<u>31,658</u>
Total Assets	<u><u>\$ 1,845,095</u></u>	<u><u>\$ 1,902,090</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Mortgage payable	\$ 1,630,753	\$ 1,663,770
Accounts payable and accrued expenses	27,305	70,616
Abatement payable	58,359	-
Security deposits	1,100	1,100
Total Liabilities	<u>1,717,517</u>	<u>1,735,486</u>
Stockholders' Equity		
Common stock \$1 par value; authorized 40,000 shares, 30,956 issued and outstanding	30,956	30,956
Additional paid-in capital	3,414,334	3,381,317
Accumulated deficit	<u>(3,317,712)</u>	<u>(3,245,669)</u>
Total Stockholders' Equity	<u>127,578</u>	<u>166,604</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 1,845,095</u></u>	<u><u>\$ 1,902,090</u></u>

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT – INCOME TAX BASIS
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues		
Maintenance charges	\$ 796,954	\$ 796,954
Less: amount contributed for mortgage amortization	<u>33,017</u>	<u>31,628</u>
	763,937	765,326
Other income	<u>71,933</u>	<u>171,961</u>
Total Revenues	835,870	937,287
Expenses excluding depreciation, amortization and income taxes		
Mortgage interest	70,922	72,120
Real estate taxes	265,251	272,126
Operating expenses	338,174	438,846
Repairs and maintenance	<u>99,760</u>	<u>67,152</u>
Total Expenses excluding depreciation, amortization and income taxes	<u>774,107</u>	<u>850,244</u>
Income (loss) before depreciation, amortization and income taxes	61,763	87,043
Depreciation	126,010	125,854
Amortization mortgage costs	4,469	4,469
(Loss) before income taxes	<u>(68,716)</u>	<u>(43,280)</u>
Income taxes	<u>3,327</u>	<u>3,209</u>
Net (Loss)	<u>(72,043)</u>	<u>(46,489)</u>
Accumulated Deficit - Beginning of Year	<u>(3,245,669)</u>	<u>(3,199,180)</u>
Accumulated Deficit - End of Year	<u><u>\$ (3,317,712)</u></u>	<u><u>\$ (3,245,669)</u></u>

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
STATEMENTS OF CASH FLOWS – INCOME TAX BASIS
Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Net loss	\$ (72,043)	\$ (46,489)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and Amortization	130,479	130,323
Changes in operating assets and liabilities:		
(Increase) Decrease in escrow deposits	(44,973)	45,568
Decrease (Increase) in accounts receivable	23,115	(5,945)
(Increase) Decrease in prepaid expenses	51,393	(52,269)
Increase (Decrease) in accounts payable	15,048	(36,840)
(Decrease) Increase in security deposits	-	110
Total Adjustments	175,062	80,947
Net cash provided by (used in) operating activities	103,019	34,458
Cash flows from investing activities:		
Capital improvements	-	25,000
Net cash (used in) investing activities	-	25,000
Cash flows from financing activities:		
Principal payments on mortgages	(33,017)	(31,628)
Contributed capital	33,017	31,628
Net cash provided by financing activities	-	-
Net (Decrease) Increase in Cash	103,019	9,458
Cash and Cash Equivalents - Beginning of Year	286,138	276,680
Cash and Cash Equivalents - End of Year	\$ 389,157	\$ 286,138
Supplemental disclosure and cash flow information:		
Cash paid during the year:		
Interest Expense	\$ 71,043	\$ 72,433
Income Taxes	\$ 3,500	\$ 3,300

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS – INCOME TAX BASIS
December 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Warner House Owners Corp.'s (the "Corporation") significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

The financial statements are prepared on the basis of reporting adopted for Federal income tax purposes.

2. Description of Entity

The Corporation operates as a cooperative housing corporation located in the borough of Queens, New York, under Section 216(B)(1) of the Internal Revenue Code. On January 9, 1985, operations of the cooperative commenced.

3. Land and Building

Land and building are stated at their tax basis pursuant to Section 351 of the Internal Revenue Code. Improvements are stated at cost.

4. Depreciation and Amortization

The building is being depreciated on the straight-line method over thirty-five (35) years. Building improvements are being depreciated on the straight-line method over twenty-seven and one half (27½) years.

5. Additional Paid-in Capital

The portion of the Corporation's monthly maintenance income, which is used to repay the outstanding mortgage payable, is reflected as additional paid-in capital by stockholders.

6. Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements the company has evaluated events and transactions for potential recognition or disclosure through May 17, 2016, the date the financial statements were available to be issued.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE C - MORTGAGE PAYABLE

On February 1, 2012 the Corporation refinanced its mortgage with NCB and obtained a mortgage with Valley National Bank in the amount of \$1,750,000 with interest at 4.25%. The mortgage is due in ten years on March 1, 2022 and is calculated on a thirty-year amortization and requires a monthly payment of \$8,672 for interest and principal. In addition the Corporation obtained a \$250,000 credit line, which bears interest at the bank's prime rate but not less than 4.5% as the minimum interest rate. Nothing has been borrowed on the line of credit as of December 31, 2015.

Principal maturities for the next five years will be approximately:

2016	\$ 35,618
2017	37,161
2018	38,771
2019	40,448
2020	42,206
Thereafter	1,436,549
	<u>\$ 1,630,753</u>

NOTE D – UNAMORTIZED MORTGAGE COST

Mortgage costs attributable to the mortgage are being amortized over the life of the mortgage.

NOTE E - INCOME TAXES

Since the Corporation has incurred a net operating loss for tax purposes, it is not subject to Federal income taxes and such losses are available to be carried forward. New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations based on capital.

The IRS ceased applying Section 277 of the Internal Revenue Code to housing cooperatives. Section 277 sought a tax derived from the excess of non-member income such as commercial rents, professional rents and investment income, over non-member expenses.

Housing cooperatives are now subject to a less stringent measure, Section 216 under Subchapter T of the Internal Revenue Code. Subchapter T calls for a tax on non-patronage net income. This allows a housing cooperative to enjoy investment income earned on "reasonable reserves" and offset such income with expenses of operating the cooperative housing corporation.

However, net income from other non-shareholder activities such as commercial and professional rentals may be subject to a tax under Subchapter T.

The IRS has reserved the right to attempt to apply Section 277 if circumstances should arise in which a failure to do so would lead to an unconscionable result.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE E - INCOME TAXES (continued)

Although the Corporation has incurred a loss, New York State Franchise taxes and New York City General Corporation taxes are generally assessed, based on the capital of the Corporation. Accordingly, a provision for Federal taxes, based upon Subchapter T of the Code, and New York State and New York City, based upon capital, have been recorded as follows:

Federal Income taxes	\$	-
New York State Franchise taxes		1,781
New York City General Corporation taxes		1,546
	\$	<u>3,327</u>

The cooperative's federal and state income tax returns for the last three years remain open to examination.

NOTE F - 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. The Board has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular assessments, pass special assessments, or delay major future repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE G - COMMITMENTS

The Corporation has entered into numerous contracts and agreements with various service organizations to perform the necessary repairs and maintenance and affiliated services for the property. The contract with the managing agent, First Management Corp., calls for a monthly fee of \$2,000 beginning in May 2015.

NOTE H - UNION BENEFITS - PRIOR YEARS

As a result of a union audit the Corporation paid prior year union benefits. There are no further benefits owed by the Corporation.

NOTE I - CASH

Balances of cash at an individual bank, at times, will exceed the federally insured limit of \$250,000. The Company regularly monitors the financial condition of the institution in which it has depository accounts and believes the risk of loss is minimal.

NOTE J - BALCONY

In May 2014 a portion of concrete from one of the balconies collapsed. There were no injuries to anyone. All balconies were inspected and all balconies have been repaired.

SUPPLEMENTARY INFORMATION

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AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Warner House Owners Corp.

The basic financial statements of Warner House Owners Corp. for the years ended December 31, 2015 and 2014 and our report thereon, are presented in the preceding section of this report. Our examination was made primarily for the purpose of formulating an overall opinion on those financial statements. The supplementary statements presented hereinafter although not considered necessary for a fair presentation of financial position, results of operations and changes in cash flows, are presented as supplementary information and have been subjected to the audit procedures applied in the supplementary statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole in accordance with Note A-1.

Great Neck, New York
May 17, 2016

Sandler, Rosengarten, Denis & Berger LLP

Warner House Owners Corp.
SCHEDULE OF OTHER INCOME – INCOME TAX BASIS
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Special assessment	\$ -	\$ 92,368
Garage income	47,520	47,520
Laundry income	13,200	13,200
Sublet fee	5,900	12,250
Interest and dividend income	2,268	2,295
Sundry income	3,045	4,328
	<u>\$ 71,933</u>	<u>\$ 171,961</u>

Warner House Owners Corp.
SCHEDULE OF OPERATING EXPENSES – INCOME TAX BASIS
 Years ended December 31, 2015 and 2014

	2015	2014
Operating Expenses		
Payroll	\$ 79,950	\$ 75,214
Payroll taxes	6,935	4,526
Power, light and gas	90,393	169,392
Management fees	24,000	24,000
Water and sewer	60,767	66,434
Insurance	47,080	58,065
Union benefits - prior years	3,379	8,600
Professional and consulting fees	18,707	17,740
Miscellaneous	6,963	14,875
	\$ 338,174	\$ 438,846

Warner House Owners Corp.
SCHEDULE OF REPAIRS AND MAINTENANCE – INCOME TAX BASIS
Years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Repairs and Maintenance		
Oil burner repairs	\$ 17,186	\$ 15,995
Elevator	4,119	20,075
Maintenance supplies	7,295	6,030
Incinerator and compactor	2,966	2,032
Plumbing	8,115	3,726
Electrical repairs	450	450
Painting, tiling and plastering	1,400	500
Exterminating	3,275	3,245
Security / Intercom	3,210	436
Doors, windows and glass	5,607	4,453
Exterior repair	-	4,075
Balcony repairs	25,500	-
Landscaping and paving	13,500	-
Apartment renovation	1,650	1,149
Miscellaneous repairs	5,487	4,986
Total Repairs and Maintenance	<u>\$ 99,760</u>	<u>\$ 67,152</u>

**WARNER HOUSE OWNERS CORP.
FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
AND
INDEPENDENT AUDITORS' REPORT**

SANDLER, ROSENGARTEN, DENIS & BERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

WARNER HOUSE OWNERS CORP.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Warner House Owners Corp.

We have audited the accompanying financial statements of Warner House Owners Corp., which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, statements of accumulated deficit, and cash flows - all income tax basis - 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 the basis of accounting the Company uses for income tax purposes described in Note A-1; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 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 Warner House Owners Corp. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with the basis of accounting the Company uses for income tax purposes as described in Note A-1.

Basis of Accounting

We draw attention to Note A-1 to the financial statements, which describes the basis of accounting. These financial statements are prepared on the basis of accounting the Company uses for income tax purposes, which is a basis of accounting other than generally accepted accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Omission of required supplementary information about future major repairs and replacements.

As discussed in the notes to the financial statements, the Company has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of future 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. Our opinion on the basic financial statements is not affected by the missing information.

Sandler, Rosenberg, Deit & Ryan LLP

Great Neck, New York
May 26, 2015

Warner House Owners Corp.
BALANCE SHEETS – INCOME TAX BASIS
December 31, 2014 and 2013

ASSETS	2014	2013
Land and building		
Land	\$ 573,470	\$ 573,470
Building and improvements	4,295,260	4,270,260
	4,868,730	4,843,730
Less: accumulated depreciation	(3,396,141)	(3,270,286)
	1,472,589	1,573,444
Cash - operating	38,866	31,702
Cash - money market	122,337	122,158
Cash - certificate of deposit	124,935	122,820
Accounts receivable	23,857	17,912
Mortgage escrow	22,166	67,734
Prepaid expenses	65,682	13,413
Mortgage refinancing costs, net of amortization of \$13,035 in 2014 and \$8,566 in 2013	31,658	36,127
	\$ 1,902,090	\$ 1,985,310

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities		
Mortgage payable	\$ 1,663,770	\$ 1,695,398
Accounts payable and accrued expenses	70,616	107,456
Security deposits	1,100	990
Total Liabilities	1,735,486	1,803,844
Stockholders' Equity		
Common stock \$1 par value; authorized 40,000 shares, 30,956 issued and outstanding	30,956	30,956
Additional paid-in capital	3,381,317	3,349,690
Accumulated deficit	(3,245,669)	(3,199,180)
Total Stockholders' Equity	166,604	181,466
Total Liabilities and Stockholders' Equity	\$ 1,902,090	\$ 1,985,310

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT – INCOME TAX BASIS
Years ended December 31, 2014 and 2013

	2014	2013
Revenues		
Maintenance charges	\$ 796,954	\$ 796,954
Less: amount contributed for mortgage amortization	31,628	30,296
	765,326	766,658
Other income	171,961	74,812
Total Revenues	937,287	841,470
Expenses excluding depreciation, amortization and income taxes		
Mortgage interest	72,120	73,653
Real estate taxes	272,126	256,721
Operating expenses	438,846	501,067
Repairs and maintenance	67,152	50,897
Total Expenses excluding depreciation, amortization and income taxes	850,244	882,338
Income (loss) before depreciation, amortization and income taxes	87,043	(40,868)
Depreciation	125,854	122,300
Amortization mortgage costs	4,469	4,469
(Loss) before income taxes	(43,280)	(167,637)
Income taxes	3,209	3,008
Net (Loss)	(46,489)	(170,645)
Accumulated Deficit - Beginning of Year	(3,199,180)	(3,028,535)
Accumulated Deficit - End of Year	\$ (3,245,669)	\$ (3,199,180)

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
STATEMENTS OF CASH FLOWS – INCOME TAX BASIS
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net loss	\$ (46,489)	\$ (170,645)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and Amortization	130,323	126,769
Changes in operating assets and liabilities:		
(Increase) Decrease in escrow deposits	45,568	(10,214)
Decrease (Increase) in accounts receivable	(5,945)	(1,019)
(Increase) Decrease in prepaid expenses	(52,269)	1,062
Increase (Decrease) in accounts payable	(36,840)	55,330
(Decrease) Increase in security deposits	110	220
Total Adjustments	<u>80,947</u>	<u>172,148</u>
Net cash provided by (used in) operating activities	34,458	1,503
Cash flows from investing activities:		
Capital improvements	25,000	77,000
Net cash (used in) investing activities	<u>25,000</u>	<u>77,000</u>
Cash flows from financing activities:		
Principal payments on mortgages	(31,628)	(30,296)
Contributed capital	31,628	30,296
Net cash provided by financing activities	<u>-</u>	<u>-</u>
Net (Decrease) Increase in Cash	9,458	(75,497)
Cash and Cash Equivalents - Beginning of Year	276,680	352,177
Cash and Cash Equivalents - End of Year	<u>\$ 286,138</u>	<u>\$ 276,680</u>
Supplemental disclosure and cash flow information:		
Cash paid during the year:		
Interest Expense	\$ 72,433	\$ 73,765
Income Taxes	<u>\$ 3,300</u>	<u>\$ 2,800</u>

The accompanying notes are an integral part of this statement.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS – INCOME TAX BASIS
December 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of Warner House Owners Corp.'s (the "Corporation") significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

The financial statements are prepared on the basis of reporting adopted for Federal income tax purposes.

2. Description of Entity

The Corporation operates as a cooperative housing corporation located in the borough of Queens, New York, under Section 216(B)(1) of the Internal Revenue Code. On January 9, 1985, operations of the cooperative commenced.

3. Land and Building

Land and building are stated at their tax basis pursuant to Section 351 of the Internal Revenue Code. Improvements are stated at cost.

4. Depreciation and Amortization

The building is being depreciated on the straight-line method over thirty-five (35) years. Building improvements are being depreciated on the straight-line method over twenty-seven and one half (27½) years.

5. Additional Paid-in Capital

The portion of the Corporation's monthly maintenance income, which is used to repay the outstanding mortgage payable, is reflected as additional paid-in capital by stockholders.

6. Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements the company has evaluated events and transactions for potential recognition or disclosure through May 26, 2015, the date the financial statements were available to be issued.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE C - MORTGAGE PAYABLE

On February 1, 2012 the Corporation refinanced its mortgage with NCB and obtained a mortgage with Valley National Bank in the amount of \$1,750,000 with interest at 4.25%. The mortgage is due in ten years on March 1, 2022 and is calculated on a thirty-year amortization and requires a monthly payment of \$8,672 for interest and principal. In addition the Corporation obtained a \$250,000 credit line, which bears interest at the bank's prime rate but not less than 4.5% as the minimum interest rate. Nothing has been borrowed on the line of credit as of December 31, 2014.

Principal maturities for the next five years will be approximately:

2015	\$ 34,138
2016	35,618
2017	37,161
2018	38,771
2019	40,448
Thereafter	<u>1,477,634</u>
	<u>\$ 1,663,770</u>

NOTE D - UNAMORTIZED MORTGAGE COST

Mortgage costs attributable to the mortgage are being amortized over the life of the mortgage.

NOTE E - INCOME TAXES

Since the Corporation has incurred a net operating loss for tax purposes, it is not subject to Federal income taxes and such losses are available to be carried forward. New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations based on capital.

The IRS ceased applying Section 277 of the Internal Revenue Code to housing cooperatives. Section 277 sought a tax derived from the excess of non-member income such as commercial rents, professional rents and investment income, over non-member expenses.

Housing cooperatives are now subject to a less stringent measure, Section 216 under Subchapter T of the Internal Revenue Code. Subchapter T calls for a tax on non-patronage net income. This allows a housing cooperative to enjoy investment income earned on "reasonable reserves" and offset such income with expenses of operating the cooperative housing corporation.

However, net income from other non-shareholder activities such as commercial and professional rentals may be subject to a tax under Subchapter T.

The IRS has reserved the right to attempt to apply Section 277 if circumstances should arise in which a failure to do so would lead to an unconscionable result.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE E - INCOME TAXES (continued)

Although the Corporation has incurred a loss, New York State Franchise taxes and New York City General Corporation taxes are generally assessed, based on the capital of the Corporation. Accordingly, a provision for Federal taxes, based upon Subchapter T of the Code, and New York State and New York City, based upon capital, have been recorded as follows:

Federal Income taxes	\$	-
New York State Franchise taxes		1,730
New York City General Corporation taxes		1,479
	\$	<u>3,209</u>

NOTE F - 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. The Board has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular assessments, pass special assessments, or delay major future repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.

NOTE G – COMMITMENTS

The Corporation has entered into numerous contracts and agreements with unions and various service organizations to perform the necessary repairs and maintenance and affiliated services for the property. The contract with the managing agent, First Management Corp., calls for a monthly fee of \$2,000 beginning in May 2015.

NOTE H – UNION BENEFITS – PRIOR YEARS

As a result of a union audit the Corporation owes approximately \$4,000 of prior years union benefits. The Corporation is paying approximately \$2,150 per quarter until the liability is paid. This expense is being recorded as it is paid.

NOTE I – CASH

Balances of cash at an individual bank, at times, will exceed the federally insured limit of \$250,000. The Company regularly monitors the financial condition of the institution in which it has depository accounts and believes the risk of loss is minimal.

Warner House Owners Corp.
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE J - FRAUD

An unauthorized person used Warner House's Home Depot credit card for approximately \$6,000 in purchases from 2010 to February 2013. First Management is investigating when the fraud started and has cancelled the credit card and launched an investigation with Home Depot to find out who the unauthorized user was and will pursue all avenues to recover the loss. No progress has been made to this point with Home Depot.

No adjustment has been made to the financial statements for this period and any recovery, if any, will be recorded when the money is received.

NOTE K - BALCONY

In May 2014 a portion of concrete from one of the balconies collapsed. There were no injuries to anyone. Tenants have been advised not to use other balconies until they have been inspected and repaired if needed. The damage was repaired and the board is reviewing proposals for repairs on all balconies.

NOTE L - FIXED ASSETS

In September 2013 a contract was entered into to upgrade the boiler and connect to natural gas for \$42,000. Also in September 2013 a contract was entered into to install a new roof on the garage for \$35,000. At December 31, 2014 \$6,000 is owed on the boiler upgrade and is included in accounts payable and accrued expenses on the balance sheet and \$25,000 is owed for a chimney upgrade.

SUPPLEMENTARY INFORMATION

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AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Warner House Owners Corp.

The basic financial statements of Warner House Owners Corp. for the years ended December 31, 2014 and 2013 and our report thereon, are presented in the preceding section of this report. Our examination was made primarily for the purpose of formulating an overall opinion on those financial statements. The supplementary statements presented hereinafter although not considered necessary for a fair presentation of financial position, results of operations and changes in cash flows, are presented as supplementary information and have been subjected to the audit procedures applied in the supplementary statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole in accordance with Note A-1.

Sandler, Rosengarten Denis & Berger LLP

Great Neck, New York
May 26, 2015

Warner House Owners Corp.
SCHEDULE OF OTHER INCOME – INCOME TAX BASIS
 Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Special assessment	\$ 92,368	\$ -
Garage income	47,520	47,422
Laundry income	13,200	13,200
Sublet fee	12,250	7,540
Interest and dividend income	2,295	2,320
Sundry income	4,328	4,330
	<u>\$ 171,961</u>	<u>\$ 74,812</u>

Warner House Owners Corp.
SCHEDULE OF OPERATING EXPENSES – INCOME TAX BASIS
 Years ended December 31, 2014 and 2013

	2014	2013
Operating Expenses		
Payroll	\$ 75,214	\$ 72,120
Payroll taxes	4,526	5,749
Power, light and gas	169,392	237,488
Management fees	24,000	23,700
Water and sewer	66,434	88,704
Insurance	58,065	44,260
Union benefits - prior years	8,600	8,600
Professional and consulting fees	17,740	14,177
Miscellaneous	14,875	6,269
	\$ 438,846	\$ 501,067

Warner House Owners Corp.
SCHEDULE OF REPAIRS AND MAINTENANCE – INCOME TAX BASIS
 Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Repairs and Maintenance		
Oil burner repairs	\$ 15,995	\$ 10,872
Elevator	20,075	8,542
Maintenance supplies	6,030	5,558
Incinerator and compactor	2,032	4,181
Plumbing	3,726	7,328
Electrical repairs	450	-
Painting, tiling and plastering	500	1,300
Exterminating	3,245	2,761
Security / Intercom	436	103
Doors, windows and glass	4,453	2,605
Exterior repair	4,075	2,100
Apartment renovation	1,149	-
Miscellaneous repairs	4,986	5,547
Total Repairs and Maintenance	<u>\$ 67,152</u>	<u>\$ 50,897</u>

EXHIBIT D

2016 Budget

**WARNER HOUSE OWNERS CORP.
BUDGETED STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2016**

Revenues	
Maintenance Income	\$ 796,954
Other income	138,500
Total Revenues	<u>935,454</u>
Expenses	
Mortgage Payments	104,000
Real estate taxes	290,000
Operating expenses	370,000
Repairs and maintenance	77,500
Reserve for repairs and maintenance	93,500
Total Expenses	<u>935,000</u>
Excess Revenue over Expenses	<u><u>\$ 454</u></u>
Other Income	
Special assessment	\$ 61,900
Garage income	49,000
Laundry income	13,200
Sublet fee	7,000
Interest and dividend income	2,400
Sundry income	5,000
Total	<u><u>\$ 138,500</u></u>
Operating Expenses	
Payroll	\$ 77,000
Payroll taxes	6,000
Heat, light & gas	100,000
Management fees	24,000
Water & sewer	70,000
Insurance	60,000
Professional & consulting fees	22,000
Income taxes	3,000
Miscellaneous	8,000
Total	<u><u>\$ 370,000</u></u>

EXHIBIT E

New Purchase Price Schedule

WARNER HOUSE SALES PRICES

Apt	Shares	Size	Current Price Per Share	Previous Prices	New Price Per Share	New Prices
102	295	4.0	\$ 950.00	\$ 280,250.00	\$ 1,000.00	\$ 295,000.00
202	298	4	\$ 950.00	\$ 283,100.00	\$ 1,000.00	\$ 298,000.00
216	298	4	\$ 950.00	\$ 283,100.00	\$ 1,000.00	\$ 298,000.00
217	199	2.5	\$ 850.00	\$ 169,150.00	\$ 1,000.00	\$ 199,000.00
304	300	4	\$ 950.00	\$ 285,000.00	\$ 1,000.00	\$ 300,000.00
316	300	4	\$ 950.00	\$ 285,000.00	\$ 1,000.00	\$ 300,000.00
403	282	3.5	\$ 850.00	\$ 239,700.00	\$ 1,000.00	\$ 282,000.00
407	333	4	\$ 950.00	\$ 316,350.00	\$ 1,000.00	\$ 333,000.00
412	302	3.5	\$ 850.00	\$ 256,700.00	\$ 1,000.00	\$ 302,000.00
505	304	3.5	\$ 850.00	\$ 258,400.00	\$ 1,000.00	\$ 304,000.00
506	456	5.5	\$ 850.00	\$ 387,600.00	\$ 1,000.00	\$ 456,000.00
606	459	5.5	\$ 850.00	\$ 390,150.00	\$ 1,000.00	\$ 459,000.00
609	338	4	\$ 950.00	\$ 321,100.00	\$ 1,000.00	\$ 338,000.00
614	308	4	\$ 950.00	\$ 292,600.00	\$ 1,000.00	\$ 308,000.00
	4,472			\$ 4,048,200.00		\$ 4,472,000.00