

MUSEUM TOWER CONDOMINIUM
(Various Owners Owning Apartment Units and
Undivided Interest in Common Areas)

Financial Statements
for year ended
December 31, 2008

29 Broadway
New York, NY 10006
USA

Tel 212 867 8000
Fax 212 687 4346
www pkfnewyork.com
E-mail info@pkfnyc.com

Independent Auditor's Report

To the Board of Managers and Unit Owners
Museum Tower Condominium

We have audited the accompanying balance sheet of Museum Tower Condominium as of December 31, 2008 and 2007, and the related statements of revenue and expenses and equity and cash flows for the years then ended. These financial statements are the responsibility of the Condominium's management. 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 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 audits provide 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 Museum Tower Condominium at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 4, the Condominium has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented required supplementary information about the estimates of future cost of major repairs and replacements.



Certified Public Accountants
A Professional Corporation

April 22, 2009

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Balance Sheet

Assets

	December 31	
	2008	2007
Current assets		
Cash	\$ 460,861	\$ 459,244
Investments (note 1d)	1,657,313	1,149,609
Common area and other charges receivable	90,035	80,685
Prepaid expenses	60,343	86,641
Total current assets	2,268,552	1,776,179
Security deposits	357,139	265,011
Deferred term loan costs (note 1h)	10,378	12,684
Common area improvements and equipment, at cost (net of accumulated depreciation of \$2,385,409 in 2008 and \$1,981,683 in 2007) (note 1h)	6,971,160	6,621,745
Total assets	\$ 9,607,229	\$ 8,675,619

Liabilities and Equity

Current liabilities		
Accounts payable	\$ 206,447	\$ 49,657
Taxes payable and accrued	6,210	6,270
Accrued expenses	372,280	377,299
Accrued real estate tax reduction costs (note 8)	56,393	101,228
Prepaid unit-owners' charges	122,211	97,065
Current portion of term loan payable (note 7)	333,333	333,333
Total current liabilities	1,096,874	964,852
Term loan payable, net of current portion (note 7)	1,333,335	1,666,668
Security deposits	357,139	265,011
Total liabilities	2,787,348	2,896,531
Equity	6,819,881	5,779,088
Total liabilities and equity	\$ 9,607,229	\$ 8,675,619

See notes to financial statements

MUSEUM TOWER CONDOMINIUM
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Statement of Revenue and Expenses and Equity

	Year Ended December 31	
	2008	2007
Revenue		
Common area charges (note 1e)	\$ 5,006,590	\$ 4,837,039
Other unit-owner charges (note 5)	542,270	566,621
Transfer fees (note 1e)	920,100	41,500
Interest	27,538	63,434
Water and sewer credit (note 1g)	-	94,340
Other	78,233	103,451
Total revenue	6,574,731	5,706,385
Expenses		
Labor and related		
Wages	2,426,460	2,316,881
Payroll taxes	207,063	196,476
Employees' hospitalization	528,424	509,302
Employees' pension fund (note 2)	179,730	146,950
Compensation and state disability	79,225	75,813
Maids' payroll and related benefits	354,324	349,201
Total labor and related	3,775,226	3,594,623
Heating	171,101	174,184
Electric and gas	491,333	458,669
Telephone	18,043	16,369
Water and sewer charges (note 1g)	65,256	101,126
Insurance	193,402	166,737
State franchise tax	13,156	11,474
Management fee	95,000	95,000
Professional fees	162,884	110,561
Real estate tax reduction costs (note 8)	30,378	73,057
Term loan interest (note 7)	119,383	127,431
Uniform cleaning and maintenance	19,172	21,953
Repairs, supplies and maintenance		
Elevator contract and repairs	47,959	47,221
Plumbing, heating and electrical	68,538	67,593
Building repairs and maintenance	55,648	80,669
Supplies and services	203,406	223,430
Other	28,021	48,088
Total expenses	5,557,906	5,418,185
Income before depreciation and amortization	1,016,825	288,200
Depreciation and amortization (note 1h)	406,032	317,811
Income (loss) before MoMA expansion revenue	610,793	(29,611)
MoMA expansion revenue (note 6)	430,000	430,000
Net income (note 3)	1,040,793	400,389
Equity		
Balance, beginning of year	5,779,088	5,378,699
Balance, end of year	\$ 6,819,881	\$ 5,779,088

See notes to financial statements

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Statement of Cash Flows

	Year Ended December 31	
	2008	2007
Cash flows from operating activities		
Net income	\$ 1,040,793	\$ 400,389
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	406,032	317,811
Changes in certain other accounts		
Reimbursable costs - MoMA	-	4,691
Common area and other charges receivable	(9,350)	14,132
Prepaid expenses	26,298	5,137
Security deposits	-	(93,250)
Accounts payable	156,790	(112,927)
Taxes payable and accrued	(60)	(174)
Accrued expenses	(5,019)	25,109
Accrued real estate tax reduction costs	(44,835)	(74,984)
Prepaid unit-owners' charges	25,146	38,873
Total adjustments	555,002	124,418
Net cash provided by operating activities	1,595,795	524,807
Cash flows from investing activities		
Expenditures for capital improvements (net of contract payable in 2007)	(753,141)	(622,890)
(Increase) decrease in investments	(507,704)	279,675
Net cash (used) by investing activities	(1,260,845)	(343,215)
Cash flows (used) by financing activities		
Term loan amortization payments	(333,333)	(333,333)
Increase (decrease) in cash	1,617	(151,741)
Cash at beginning of year	459,244	610,985
Cash at end of year	\$ 460,861	\$ 459,244
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 119,383	\$ 127,431

See notes to financial statements

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Notes to Financial Statements
 December 31, 2008

Note 1 - Significant accounting policies

a. Organization

Museum Tower Condominium (The "Condominium") was established pursuant to Article 9B of the Real Property Law of the State of New York and commenced operations in April 1983. The Condominium consists of 245 residential units.

b. Ownership

Under condominium ownership, unit owners possess title to their units and are entitled to exclusive use of them. In addition, each unit owner has an undivided interest (a percentage set forth in the Public Offering Statement) in the common elements of the Condominium. The financial statements do not include the cost of the individual units and the common elements of the Condominium.

c. Basis of presentation

The financial statements have been prepared in accordance with the accounting principles prescribed by the Audit and Accounting Guide for Common Interest Realty Associations issued by the American Institute of Certified Public Accountants. The Guide describes conditions and procedures unique to the industry (including condominium associations) and illustrates the form and content of the financial statements of common interest realty associations as well as informative disclosures relating to such statements. In addition, the Guide requires that all revenues from unit-owners, including common area charges and special assessments, be recognized as revenue in the statement of revenue and expenses and equity.

In preparing its financial statements in conformity with generally accepted accounting principles, the Condominium makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

d. Investments

At December 31, 2008 and 2007, the Condominium's investments consist of:

	December 31	
	2008	2007
Money market	\$ 1,657,313	\$ 290,507
Certificates of deposit	-	461,510
U.S. Treasury bills	-	397,592
Total	\$ 1,657,313	\$ 1,149,609

The carrying value of the Condominium's investment in U.S. Treasury bills in 2007 were reported at cost, which approximated fair value.

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Notes to Financial Statements (continued)
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e. Transfer fees

In May 2007, the Condominium's unit-owners approved an amendment to the by-laws effective September 1, 2007, which provides that upon the sale, transfer, assignment or other conveyance of a residential unit in the Condominium, the purchaser shall be required to make a contribution to the capital replacement reserve fund in an amount equal to two percent (2%) of the purchase price or other consideration for such purchase, transfer, assignment or other conveyance. All monies received by the Condominium pursuant to this amendment shall be used solely and exclusively to fund replacements and repairs by the Condominium to the common elements of the Condominium.

f. Income taxes - contributions to equity/deferred unit-owner revenue

For income tax reporting purposes, the Condominium's accounting policies provide that: i) expenditures for capital improvements and repayment of debt which are funded out of common area charges and special assessments will be deemed contributions to equity of the Condominium from unit-owners; and ii) any excess of revenue over expenses and the current year's capital improvements and repayment of debt shall be deferred for the purpose of funding future capital improvements. For the years ended December 31, 2008 and 2007, the portions of common area charges and special assessments used to fund capital improvements and repayment of debt totaled \$1,086,474 and \$755,756, respectively.

See note 9 for a summary of annual contributions to equity.

g. Water and sewer charges

Expenses incurred for water and sewer charges are based upon the Condominium's usage as reflected in billings received from The City of New York Department of Environmental Protection. While the Condominium makes accruals for estimated water and sewer charges, given the infrequency of actual billings and the nature of water usage, the expense for water and sewer charges reflected in the accompanying statement of revenue and expenses and equity may differ from amounts reflected in the actual water and sewer bills. Such differences are recorded as adjustments to the related expense in the following period.

The Condominium engaged the services of a water management and conservation consultant to analyze the Condominium's water and sewer bills to verify the accuracy of billings and to advise on options to reduce consumption and related costs in the future. During 2007, the Company received a credit of \$94,340 which amount has been recognized as revenue in the accompanying 2007 statement of revenue and expenses and equity.

h. Depreciation and amortization

No provision for depreciation of the building has been reflected in the financial statements because of the undivided interest ownership thereof. Common area improvements, excluding \$122,031 of fully depreciated assets, are being depreciated by the straight-line method over the estimated useful life of 27-1/2 years. Equipment, excluding \$932,253 of fully depreciated assets, is being depreciated by the straight-line method over a period of 7 years.

Deferred term loan costs are being amortized on a straight-line basis over the term of the loan payable.

i. Concentration of credit risk

The Condominium maintains its cash in operating and investment money market accounts on deposit in two financial institutions in amounts which exceed Federally insured limits. The Condominium has not experienced any losses on these deposits.

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Notes to Financial Statements (continued)
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Note 2 - Employees' pension plan

Substantially all of the Condominium's employees are covered by a collective bargaining agreement. In addition, the Condominium's employees are covered by a multiemployer pension plan. The Condominium's contributions to the plan for 2008 and 2007 totaled \$179,730 and \$146,950, respectively. The information as to the Condominium's portion of accumulated plan benefits and plan assets is not determinable. Under the Employee Retirement Income Security Act of 1974, as amended, an employer, upon withdrawal from a multiemployer plan, is required to continue to pay its proportionate share of the plan's unfunded vested benefits. The Condominium has no intention of withdrawing from the plan.

Note 3 - Income taxes

The permanent differences attributable to the contributions to equity for capital improvements and repayment of the term loan (see note 1f) of \$1,086,474 and \$755,756 were sufficient to offset taxable income for the years ended December 31, 2008 and 2007, respectively. Therefore, provisions for income taxes are not reflected in the accompanying financial statements.

At December 31, 2008, the Condominium has available operating loss carryforwards of approximately \$2,000,000 for Federal income tax purposes which expire between the years 2021 and 2028. Because the future utilization of these tax carryforward losses is uncertain, no related deferred tax asset account has been reflected in the accompanying financial statements.

The Condominium's tax returns are subject to review by the respective tax authorities.

Note 4 - Funding for future major repairs and replacements

The Condominium's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Condominium has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of the costs of major repairs and replacements that may be required in the future. When funds are required to meet future needs for major repairs and replacements, the Condominium has the right to increase maintenance charges, pass special assessments, borrow, or delay repairs and replacements until funds are available. The effects on future assessments have not been determined at this time.

Note 5 - Other unit-owner charges

Other unit-owner charges in the accompanying statement of revenue and expenses and equity consists of:

	<u>2008</u>	<u>2007</u>
Maid service	\$ 386,621	\$ 388,040
Gratuity	47,600	48,600
Health Club	40,510	47,887
Laundry	46,021	45,566
Moving fees	16,208	29,950
Late fees	1,710	2,028
Recreation facility	3,600	4,550
	<u>\$ 542,270</u>	<u>\$ 566,621</u>

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Notes to Financial Statements (continued)
 December 31, 2008

Note 6 - Museum of Modern Art expansion

In June 2001, the Condominium entered into agreements with The Museum of Modern Art ("MoMA"), whereby MoMA, in consideration of the execution of certain agreements and cooperation given by the Condominium in connection with the expansion of the existing Museum facility would, among other things, pay the Condominium the sum of \$5.8 million as follows: \$500,000 upon execution of the agreements; \$500,000 on each of July 1, 2002 and 2003; and, \$430,000 on each July 1 thereafter through and including July 1, 2013.

Note 7 - Term loan payable

On July 7, 2004, the Condominium borrowed \$3 million from Allied Irish Banks, PLC. The funds were used to finance construction of a garden terrace, video conference center, expansion of the gymnasium and renovation of office space and HVAC systems. Principal payments are self amortizing and are payable in installments of \$333,333 due on the first day of each July, commencing July 1, 2005, with payment of the remaining principal balance due on July 1, 2013. Interest on the outstanding balance is payable monthly at the rate of 5.8% per annum. The loan is secured by an assignment of rights with regard to annual MoMA payments totaling \$3.87 million (see note 6) over the nine year loan period.

Note 8 - Real estate taxes

The real property has been separately assessed by The City of New York; consequently, real estate taxes applicable to common areas have been proportionately billed to and paid by each unit-owner. As a result, the financial statements do not reflect such expenditures in the common area operations.

The Condominium, on behalf of its unit-owners, engages an attorney to institute certiorari proceedings seeking to negotiate a reduction in the assessed valuation of the and building for real estate tax purposes. Certiorari proceedings for the tax years 2002/03 through 2008/09 have been settled in favor of unit-owners. Legal fees incurred in connection with these settlements are included in the accompanying statement of revenue and expenses and equity.

Note 9 - Contributions to equity

Following is a summary of the annual portions of common area charges and special assessments used to fund the costs of common area improvements and repayment of the term loan payable which were reclassified as contributions to equity for income tax reporting. Unit-owners are entitled to increases in the income tax cost basis of their units for the respective periods of their ownership in the Condominium by the proportionate share of the following amounts:

<u>Year</u>	<u>Contributions to Equity</u>	<u>Year</u>	<u>Contributions to Equity</u>
1993	\$ 60,590	2001	\$ 555,238
1994	114,789	2002	109,451
1995	93,456	2003	299,268
1996	223,866	2004	213,026
1997	702,153	2005	1,428,769
1998	1,264,947	2006	1,214,967
1999	328,401	2007	755,756
2000	298,041	2008	1,086,474

* * *