

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

Financial Statements
for year ended
December 31, 2007

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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, 2007 and 2006, 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, 2007 and 2006, 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

September 3, 2008

MUSEUM TOWER CONDOMINIUM
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Balance Sheet

Assets

	December 31	
	2007	2006
Current assets		
Cash	\$ 459,244	\$ 610,985
Investments (note 1d)	1,149,609	1,429,284
Reimbursable costs - MoMA (note 6)	-	4,691
Common area and other charges receivable	80,685	94,817
Prepaid expenses	86,641	91,778
Total current assets	1,776,179	2,231,555
Security deposits	265,011	150,718
Deferred term loan costs (note 1g)	12,684	14,990
Common area improvements and equipment, at cost (net of accumulated depreciation of \$1,981,683 in 2007 and \$1,666,178 in 2006) (note 1g)	6,621,745	6,514,827
Total assets	\$ 8,675,619	\$ 8,912,090

Liabilities and Equity

Current liabilities		
Accounts payable	\$ 49,657	\$ 162,584
Contract payable (note 10)	-	200,467
Taxes payable and accrued	6,270	6,444
Accrued expenses	377,299	352,190
Accrued real estate tax reduction costs (note 9)	101,228	176,212
Prepaid unit-owners' charges	97,065	58,192
Current portion of term loan payable (note 7)	333,333	333,333
Total current liabilities	964,852	1,289,422
Term loan payable, net of current portion (note 7)	1,666,668	2,000,001
Security deposits	265,011	243,968
Total liabilities	2,896,531	3,533,391
Equity	5,779,088	5,378,699
Total liabilities and equity	\$ 8,675,619	\$ 8,912,090

See notes to financial statements

MUSEUM TOWER CONDOMINIUM
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Statement of Revenue and Expenses and Equity

	Year Ended December 31	
	2007	2006
Revenue		
Common area charges (note 1e)	\$ 4,837,039	\$ 4,563,520
Other unit-owner charges (note 5)	566,621	1,248,723
Interest	63,434	66,603
Transfer fee (note 11)	41,500	-
Water and sewer credit (note 1f)	94,340	-
Other	103,451	36,591
Total revenue	5,706,385	5,915,437
Expenses		
Labor and related		
Wages	2,316,881	2,230,457
Payroll taxes	196,476	184,555
Employees' hospitalization	509,302	509,261
Employees' pension fund (note 2)	146,950	125,877
Compensation and state disability	75,813	70,689
Maids' payroll and related benefits	349,201	335,977
Total labor and related	3,594,623	3,456,816
Heating	174,184	200,721
Electric and gas	458,669	425,774
Telephone	16,369	15,511
Water and sewer charges (note 1f)	101,126	63,910
Insurance	166,737	162,382
State franchise tax	11,474	8,515
Management fee	95,000	90,000
Professional fees	110,561	92,733
Real estate tax reduction costs (note 9)	73,057	176,212
Term loan interest (note 7)	127,431	146,557
Uniform cleaning and maintenance	21,953	17,433
Repairs, supplies and maintenance		
Elevator contract and repairs	47,221	59,167
Plumbing, heating and electrical	67,593	57,522
Building repairs and maintenance	80,669	64,281
Supplies and services	223,430	179,995
Other	48,088	43,215
Total expenses	5,418,185	5,260,744
Income before depreciation and amortization	288,200	654,693
Depreciation and amortization (note 1g)	317,811	214,687
Income (loss) before MoMA expansion revenue and other credits	(29,611)	440,006
MoMA expansion revenue (note 6)	430,000	430,000
Net income (note 3)	400,389	870,006
Equity		
Balance, beginning of year	5,378,699	4,508,693
Balance, end of year	\$ 5,779,088	\$ 5,378,699

See notes to financial statements

MUSEUM TOWER CONDOMINIUM
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Statement of Cash Flows

	Year Ended December 31	
	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Net income	\$ 400,389	\$ 870,006
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	317,811	214,687
Changes in certain other accounts		
Reimbursable costs - MoMA	4,691	-
Common area and other charges receivable	14,132	(16,739)
Due from former managing agent	-	74,998
Prepaid expenses	5,137	13,839
Security deposits	(93,250)	(2,250)
Accounts payable	(112,927)	(407,037)
Taxes payable and accrued	(174)	(1,087)
Accrued expenses	25,109	90,776
Accrued real estate tax reduction costs	(74,984)	176,212
Prepaid unit-owners' charges	38,873	17,983
Total adjustments	<u>124,418</u>	<u>161,382</u>
Net cash provided by operating activities	<u>524,807</u>	<u>1,031,388</u>
Cash flows from investing activities		
Expenditures for capital improvements (net of contract payable)	(622,890)	(681,167)
Decrease in investments	279,675	369,038
Net cash (used) by investing activities	<u>(343,215)</u>	<u>(312,129)</u>
Cash flows (used) by financing activities		
Term loan amortization payments	<u>(333,333)</u>	<u>(333,333)</u>
Increase (decrease) in cash	(151,741)	385,926
Cash at beginning of year	<u>610,985</u>	<u>225,059</u>
Cash at end of year	\$ <u>459,244</u>	\$ <u>610,985</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ <u>127,431</u>	\$ <u>160,735</u>

See notes to financial statements

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Notes to Financial Statements
December 31, 2007

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

The Condominium classifies its U.S. Treasury investments as held-to-maturity securities which are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. The carrying value of these investments approximates market.

At December 31, 2007 and 2006, the Condominium's investments consist of:

	December 31	
	2007	2006
Money market	\$ 290,507	\$ 537,360
Certificates of deposit	461,510	450,000
U.S. Treasury bills	397,592	441,924
Total	<u>\$ 1,149,609</u>	<u>\$ 1,429,284</u>

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Notes to Financial Statements (continued)
December 31, 2007

e. 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, 2007 and 2006, the portions of common area charges and special assessments used to fund capital improvements and repayment of debt totaled \$755,756 and \$1,214,967, respectively.

f. 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 water and sewer credit in the amount of \$94,340 which amount has been recognized as revenue in the accompanying 2007 statement of revenue and expenses and equity.

g. 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 estimated useful lives of 7 to 27-1/2 years. Equipment, excluding \$816,806 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.

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 2007 and 2006 totaled \$146,950 and \$125,877, 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.

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Notes to Financial Statements (continued)
December 31, 2007

Note 3 - Income taxes

The permanent differences attributable to the contributions to equity for capital improvements and repayment of the term loan (see note 1e) of \$719,914 and \$1,214,967 were sufficient to offset taxable income for the years ended December 31, 2007 and 2006, respectively. Therefore, provisions for income taxes are not reflected in the accompanying financial statements.

At December 31, 2007, the Condominium has available operating loss carryforwards of approximately \$1,900,000 for Federal income tax purposes which expire between the years 2020 and 2027. 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>2007</u>	<u>2006</u>
Special assessments (note 8)	\$ -	\$ 399,644
Energy assessment (note 8)	-	274,521
Maid service	388,040	411,816
Gratuity	48,600	48,400
Health Club	47,887	46,067
Laundry	45,566	39,677
Moving fees	29,950	21,300
Late fees	2,028	4,998
Recreation facility	4,550	2,300
	<u>\$ 566,621</u>	<u>\$ 1,248,723</u>

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.

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Notes to Financial Statements (continued)
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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 - Unit-owner charges

Effective January 2008, common charges were increased by 3.5% (\$5,008,298).

In November 2005, the Board of Managers approved a \$399,644 special assessment to replenish reserve funds which was billed in two equal installments in February and May 2006. In January 2006, a interim energy escalation charge of \$274,521 was billed to unit-owners.

Note 9 - 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 land and building for real estate tax purposes. For the tax years 2002/03 through 2006/07 such proceedings were settled in favor of unit-owners. Legal fees incurred in connection with the settlement totaled \$223,918 of which \$176,212 is included in the accompanying 2006 statement of revenue and expenses and equity. The balance of \$47,706, representing the portion of fees applicable to the year 2007 is included in the accompany 2007 statement of revenue and expenses and equity. In addition legal fees incurred in connection with the 2007/08 settlement totaling \$25,351 are also included in 2007 professional fees expense.

Note 10 - Commitments

During 2007, the Condominium entered into a \$203,901 contract for replacement of the building's revolving door at which time a \$67,967 deposit was paid. In addition, the Condominium also entered into a \$520,000 contract in 2008 for replacement of the limestone facade. Work on both projects is expected to commence and be completed in 2008.

During 2006, the Condominium entered into a \$501,168 contract for installation of new exterior window cleaning equipment. As of December 31, 2007, work on this project was completed and paid for.

Note 11 - Amendment to By-Laws

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.

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Notes to Financial Statements (continued)
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Note 12 - 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>
1993	\$ 60,590
1994	114,789
1995	93,456
1996	223,866
1997	702,153
1998	1,264,947
1999	328,401
2000	298,041
2001	555,238
2002	109,451
2003	299,268
2004	213,026
2005	1,428,769
2006	1,214,967
2007	755,756

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