

RIVIERA TOWERS CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

NOVEMBER 30, 2004

RIVIERA TOWERS CORPORATION

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November 30, 2004

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Independent Auditors' Report

Board of Directors
Riviera Towers Corporation

We have audited the accompanying Comparative Balance Sheets of Riviera Towers Corporation as of November 30, 2004 and November 30, 2003, and the related Statements of Income, Changes in Stockholders' Equity and Cash Flows for each of the years then ended. These financial statements are the responsibility of the Riviera Towers Corporation management. Our responsibility is to express an opinion on these financial statements based on our audit.

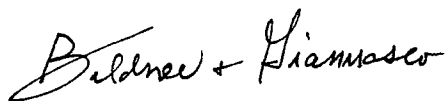
We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test 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 Riviera Towers Corporation as of November 30, 2004 and November 30, 2003, 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the accompanying schedules of reserves and reserve funds, income, administrative, operating, maintenance, taxes, insurance, financial expenses, and operating budget compared to actual, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

As discussed in Note 9, the Corporation has estimated the remaining lives and replacement costs of its building and equipment and has presented information about the estimates of costs of major repairs and replacements that will be required in the future. The American Institute of Certified Public Accountants has determined this information is required to supplement, although not required to be part of the basic financial statements. We have not audited the information regarding major repairs and replacement costs and express no opinion on it.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bildner + Giannasco".

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
February 9, 2005

RIVIERA TOWERS CORPORATION**Comparative Balance Sheets**

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>NOVEMBER 30, 2004</u>	<u>NOVEMBER 30 2003</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 180,642	\$ 158,773
Accrued Mortgage Interest Payable	60,811	75,154
Accrued Operating Expenses	9,232	9,367
Mortgage Payable	168,876	180,476
Lease Payable	14,795	13,661
Prepaid Income	93,706	30,470
	<hr/>	<hr/>
<u>TOTAL CURRENT LIABILITIES</u>	\$ 528,062	\$ 467,901
<u>SECURITY DEPOSITS PAYABLE-See Contra</u>	\$ 86,218	\$ 86,581
	<hr/>	<hr/>
<u>LONG TERM LIABILITIES</u>		
Mortgages Payable	\$ 12,979,619	\$ 11,460,409
Lease Payable	-	14,795
	<hr/>	<hr/>
<u>TOTAL LONG TERM LIABILITIES</u>	12,979,619	11,475,204
	<hr/>	<hr/>
<u>TOTAL LIABILITIES</u>	\$ 13,593,899	\$ 12,029,686
	<hr/>	<hr/>
<u>STOCKHOLDERS' EQUITY</u>		
Common Stock, Par Value \$1 Per Share		
85,477 Shares Issued, 85,215 Outstanding	\$ 85,477	\$ 85,477
Paid-In Capital	9,711,214	9,556,136
Reserve for Capital Projects	746,631	1,035,667
Retained Earnings (Deficit)	(11,871,832)	(10,860,900)
Treasury Stock	(121,595)	(107,770)
	<hr/>	<hr/>
<u>TOTAL STOCKHOLDERS' EQUITY</u>	\$ (1,450,105)	\$ (291,390)
	<hr/>	<hr/>
<u>COMMITMENTS AND CONTINGENCIES</u>		
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	\$ 12,143,794	\$ 11,738,296
	<hr/> <hr/>	<hr/> <hr/>

RIVIERA TOWERS CORPORATION

Comparative Statements of Income

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2003</u>
<u>INCOME</u>		
Carrying Charges and Other Rentals	\$ 4,857,500	\$ 4,814,807
Financial Income	69,267	90,459
Other Income	<u>311,318</u>	<u>218,442</u>
<u>TOTAL INCOME</u>	<u>\$ 5,238,085</u>	<u>\$ 5,123,708</u>
<u>EXPENSES</u>		
Administrative	\$ 255,080	\$ 264,788
Operating	787,224	750,655
Maintenance	1,061,250	1,044,669
Taxes and Insurance	1,601,430	1,623,299
Financial	<u>1,918,301</u>	<u>946,796</u>
<u>TOTAL EXPENSES</u>	<u>\$ 5,623,285</u>	<u>\$ 4,630,207</u>
<u>NET INCOME (LOSS) BEFORE DEPRECIATION</u>	<u>\$ (385,200)</u>	<u>\$ 493,501</u>
<u>DEPRECIATION</u>	<u>759,690</u>	<u>734,565</u>
<u>NET (LOSS) FOR YEAR</u>	<u>\$ (1,144,890)</u>	<u>\$ (241,064)</u>

The accompanying auditors' report and notes are an integral part of these statements.

RIVIERA TOWERS CORPORATION

Comparative Statements of Changes in Stockholders' Equity

	<u>COMMON</u> <u>STOCK</u>	<u>PAID-IN</u> <u>CAPITAL</u>	<u>APPROPRIATED</u> <u>RETAINED</u> <u>EARNINGS</u>	<u>RETAINED</u> <u>EARNINGS</u> <u>(DEFICIT)</u>	<u>TREASURY</u> <u>STOCK</u>	<u>TOTAL</u> <u>STOCKHOLDERS'</u> <u>EQUITY</u>
<u>BALANCE AT DECEMBER 1, 2003</u>	\$ 85,477	\$ 9,556,136	\$ 1,035,667	\$ (10,860,900)	\$ (107,770)	\$ (291,390)
<u>NET (LOSS) FOR YEAR</u>	-	-	-	(1,144,890)	-	(1,144,890)
<u>MORTGAGE AMORTIZATION</u>	-	155,078	-	(155,078)	-	-
<u>PURCHASE OF TREASURY STOCK</u>	-	-	-	-	(13,825)	(13,825)
<u>NET TRANSFERS TO APPROPRIATED</u> <u>RETAINED EARNINGS</u>	-	-	(289,036)	289,036	-	-
<u>BALANCE AT NOVEMBER 30, 2004</u>	<u>\$ 85,477</u>	<u>\$ 9,711,214</u>	<u>\$ 746,631</u>	<u>\$ (11,871,832)</u>	<u>\$ (121,595)</u>	<u>\$ (1,450,105)</u>
<u>BALANCE AT DECEMBER 1, 2002</u>	\$ 85,477	\$ 9,389,130	\$ 1,913,799	\$ (11,330,962)	\$ (94,282)	\$ (36,838)
<u>NET (LOSS) FOR YEAR</u>	-	-	-	(241,064)	-	(241,064)
<u>MORTGAGE AMORTIZATION</u>	-	167,006	-	(167,006)	-	-
<u>PURCHASE OF TREASURY STOCK</u>	-	-	-	-	(13,488)	(13,488)
<u>NET TRANSFERS TO APPROPRIATED</u> <u>RETAINED EARNINGS</u>	-	-	(878,132)	878,132	-	-
<u>BALANCE AT NOVEMBER 30, 2003</u>	<u>\$ 85,477</u>	<u>\$ 9,556,136</u>	<u>\$ 1,035,667</u>	<u>\$ (10,860,900)</u>	<u>\$ (107,770)</u>	<u>\$ (291,390)</u>

The accompanying auditors' report and notes are an integral part of these statements.

RIVIERA TOWERS CORPORATION**Comparative Statements of Cash Flows**

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2003</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net (Loss) for Year	\$ (1,144,890)	\$ (241,064)
Adjustments to Reconcile Net (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	759,690	734,565
Amortization - Finance Costs	96,411	31,842
<u>Changes in Assets and Liabilities:</u>		
<u>(Increase) Decrease in:</u>		
Tenants' Accounts Receivable	(15,175)	(11,655)
Other Accounts Receivable	(8,488)	(809)
Prepaid Expenses	24,434	44,429
<u>Increase (Decrease) in:</u>		
Accounts Payable	21,869	(69,919)
Accrued Interest Payable	(14,343)	(1,083)
Accrued Operating Costs	(135)	2,595
Prepaid Income	63,236	(36,507)
	<hr/>	<hr/>
<u>NET CASH PROVIDED (USED) BY</u> <u>OPERATING ACTIVITIES (Forward)</u>	<u>\$ (217,391)</u>	<u>\$ 452,394</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital Expenditures	\$ (1,184,080)	\$ (1,224,595)
Mortgage Escrow Deposits	(116,521)	(23,500)
	<hr/>	<hr/>
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u> (Forward)	<u>\$ (1,300,601)</u>	<u>\$ (1,248,095)</u>

RIVIERA TOWERS CORPORATION

Comparative Statements of Cash Flows

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2003</u>
<u>NET CASH PROVIDED (USED) BY</u> <u>OPERATING ACTIVITIES (Forward)</u>	<u>\$ (217,391)</u>	<u>\$ 452,394</u>
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u> <u>(Forward)</u>	<u>\$ (1,300,601)</u>	<u>\$ (1,248,095)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Mortgage Financing	\$ 13,200,000	\$ -
Finance Costs Incurred	(126,583)	-
Reduction of Lease Payable	(13,661)	(10,581)
Decrease in Due from Capital Project Res. Fund	18,909	22,378
Net Increase to Capital Projects Reserve	289,036	878,132
Carrying Cost of Treasury Stock	(13,825)	(13,488)
Mortgage Amortization	<u>(11,692,390)</u>	<u>(167,006)</u>
<u>NET CASH PROVIDED BY FINANCING ACTIVITIES</u>	<u>\$ 1,661,486</u>	<u>\$ 709,435</u>
<u>NET INCREASE (DECREASE) IN CASH</u> <u>AND CASH EQUIVALENTS</u>	<u>\$ 143,494</u>	<u>\$ (86,266)</u>
<u>CASH AND CASH EQUIVALENTS,</u> <u>BEGINNING OF YEAR</u>	<u>300,880</u>	<u>387,146</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$ 444,374</u>	<u>\$ 300,880</u>
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	<u>\$ 850,543</u>	<u>\$ 908,969</u>

The accompanying auditors' report and notes are an integral part of these statements.

RIVIERA TOWERS CORPORATION

Notes to Financial Statements
November 30, 2004

1- SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND OF COMPANY

The Corporation was organized under the laws of the State of New Jersey in September 1970. The Corporation consists of 426 dwelling units and is located in West New York, New Jersey.

PROPERTY AND EQUIPMENT

Property and Equipment are stated at cost. Major renewals and betterments are capitalized; normal maintenance and repairs are charged to operations.

Depreciation is provided by charges to operations over the estimated useful lives of the assets involved, utilizing the straight-line method of depreciation. The estimated useful lives are as follows:

Building Improvement	25-50 Years
Operating Equipment	10 Years

RECOGNITION OF REVENUE

Revenue and related costs are recognized in the period in which the revenue is earned or the cost incurred.

2- MORTGAGE ESCROW DEPOSITS

Funds on deposit with the mortgagee may be summarized as follows:

Real Estate Tax	\$236,442
Insurance	<u>114,751</u>
	<u>\$351,193</u>

3- TENANT'S ACCOUNTS RECEIVABLE

The Housing Company, during the current year, has elected to maintain an allowance for collection loss of \$5,000 as of November 30, 2004.

4- PREPAID EXPENSES

Prepaid Expenses may be summarized as follows:

Real Estate Taxes	\$110,578
Insurance	36,120
Sewer Charges	<u>6,687</u>
	<u>\$153,385</u>

5- RESERVE FUNDS

The Corporation provides for the funding of a reserve for future capital expenditures of \$419,285. The Corporation also added an additional \$580,756 to the fund from the proceeds of the mortgage refinancing. During the current year funds were expended in the amount of \$1,289,077, leaving a balance in the reserve funds of \$746,631.

6- MORTGAGE PAYABLE

On October 10, 1996, the Housing Company refinanced its then existing mortgage and construction loans in favor of a single mortgage in the amount of \$11,000,000, bearing interest at the rate of 7.95% per annum. Mortgage amortization is based upon a thirty-year amortization schedule with a balloon payment of \$9,639,748.88, due November 21, 2006. The monthly debt service requirement to service the debt amounts to \$80,331.

On May 15, 2002, the Corporation entered into a loan agreement for an additional \$1,500,000. These funds are to be used to fund its capital improvements. The loan bears interest at 6.35%, based on a thirty-year amortization schedule, due to mature on November 1, 2006.

On June 29, 2004, the Housing Company refinanced its existing mortgages in favor of a single mortgage in the amount of \$13,200,000, bearing interest at a rate of 5.55% per annum. Due to the refinancing the Corporation was required to pay a prepayment of interest in the amount of \$983,907, which has been reflected in these financial statements. Mortgage amortization is based upon a 30 year amortization schedule with a balloon payment due and payable on July 1, 2013 in the amount of \$11,340,907. The monthly debt service requirement to service the debt amounts to \$75,363.

Amortization over the next five years are as follows:

November 30, 2005	\$168,876
November 30, 2006	178,627
November 30, 2007	188,943
November 30, 2008	197,841
November 30, 2009	211,277

7- TREASURY STOCK

As a result of a foreclosure action in 1993, the Housing Company acquired treasury stock on one dwelling unit and incurred legal costs associated with this acquisition. Additionally, carrying charges ascribed to the apartments since acquisition have been capitalized.

8- COMMITMENTS AND CONTINGENCIES

The Housing Company is a cooperative real estate corporation as defined in Section 216 of the Internal Revenue Code. The Internal Revenue Service has taken the position that real estate cooperatives are subject to Section 277 of the Internal Revenue Code.

Section 277 of the Code provides that a membership organization that is operated to provide services to members is permitted to deduct expenses attributable to the furnishing of services to the members only to the extent of the income derived during such year from its members. Section 277 permits a membership organization to reduce income from non-membership sources only by expenses incurred in generating this income. Accordingly, income from non-membership sources such as interest, commercial rental, professional apartment rental, etc., in excess of expenses properly attributable thereto, may be subject to Federal tax.

Income tax liability that may result from the above is not reflected in the attached financial statements. If the position of the Internal Revenue Service is sustained by the courts, then the Housing Company will be taxed on its income from non-membership sources. As of the date of this report, it is not possible to ascertain whether or not Internal Revenue will be successful in attempting to tax such income.

9- FUTURE MAJOR REPAIRS AND REPLACEMENTS-NOVEMBER 30, 2004

(UNAUDITED)

During 2001 the Corporation 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 of Directors has also 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 repairs and replacements if the funds available are not adequate.

The following table is based upon the engineering study previously mentioned and contains significant information about the capital projects recommended for the building and equipment.

Explanatory Notes:

- 1) Year 2001 Starting Reserves are as of March 31, 2001; FY starts December 1 and ends November 30
- 2) Reserve Contributions for 2001 are the remaining budgeted eight months; 2002 is the first year of recommended contributions
- 3) 4.7% is the estimated Weighted Annual Rate of Return on Invested Reserves; 2001 is a partial year of interest earned

CASH FLOW ANALYSIS

**Riviera Towers
Cooperative**

West New York, New Jersey

	FY 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Reserves at Beginning of Year (Note 1)	\$750,134	931,072	505,761	521,527	329,029	733,815	375,232	631,579	782,666	1,188,605	1,243,695
Plus Recommended Reserve Contributions (Note 2)	280,000	1,100,000	1,100,000	1,100,000	1,100,000	500,000	517,000	534,600	552,800	571,600	591,000
Plus Estimated Interest Earned, During Year (Note 3)	16,138	32,990	23,587	19,529	24,403	25,464	23,117	32,472	45,261	55,847	67,542
Less Anticipated Expenditures, By Year	(115,200)	(1,558,301)	(1,107,821)	(1,312,027)	(719,617)	(884,047)	(283,770)	(415,985)	(192,122)	(572,357)	(204,246)
Anticipated Reserves at Year End	\$931,072	505,761	521,527	329,029	733,815	375,232	631,579	782,666	1,188,605	1,243,695	1,697,991

Predicted Reserves based on current funding levels of: \$420,000 (190,000) (903,000) (1,858,000)

CASH FLOW ANALYSIS

(continued)

Individual Reserve Budgets & Cash Flows for the Next 20 Years, Continued

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Reserves at Beginning of Year	1,697,991	2,307,525	2,853,000	2,647,172	1,897,127	2,399,961	2,351,547	1,696,295	1,374,773	1,339,809
Plus Recommended Reserve Contributions	611,100	631,900	653,400	675,600	698,600	722,400	747,000	772,400	798,700	825,900
Plus Estimated Interest Earned, During Year	91,968	118,488	126,286	104,339	98,640	109,074	92,940	70,513	62,328	67,939
Less Anticipated Expenditures, By Year	(93,534)	(204,913)	(985,514)	(1,529,984)	(295,406)	(878,888)	(1,495,192)	(1,164,435)	(895,992)	(614,495)
Anticipated Reserves at Year End	2,307,525	2,853,000	2,647,172	1,897,127	2,398,961	2,351,547	1,696,295	1,374,773	1,339,809	1,619,153

SUPPLEMENTARY INFORMATION

RIVIERA TOWERS CORPORATION**Schedule of Reserves and Reserve Funds
For the Year Ended November 30, 2004**

	<u>TOTAL</u>
<u>RESERVES AND FUND BALANCES</u>	
<u>DECEMBER 1, 2003</u>	\$ 1,035,667
<u>ADDITIONS</u>	<u>1,000,041</u>
	<u>\$ 2,035,708</u>
<u>CHARGES:</u>	
General Building	\$ 27,425
Plumbing Repairs	24,338
Equipment Replacement	9,300
Electrical Repairs	13,829
Decorating Expense	11,343
Building Improvements	1,158,804
Building Equipment	25,275
Security Equipment	2,433
Concrete and Masonary	9,900
Pool	<u>6,430</u>
	<u>\$ 1,289,077</u>
<u>RESERVES AND FUND BALANCES,</u>	
<u>NOVEMBER 30, 2004</u>	<u>\$ 746,631</u>

The accompanying auditors' report and notes are an integral part of these statements.

RIVIERA TOWERS CORPORATION**Comparative Schedules of Income**

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2003</u>
<u>INCOME FROM CARRYING CHARGES</u>		
<u>AND OTHER RENTALS</u>		
Carrying Charges	\$ 4,497,114	\$ 4,387,429
Apartment Rentals	17,680	17,040
Commercial Rentals	<u>342,706</u>	<u>410,338</u>
<u>TOTAL INCOME FROM CARRYING CHARGES</u>	<u>\$ 4,857,500</u>	<u>\$ 4,814,807</u>
<u>AND OTHER RENTALS</u>		
 <u>FINANCIAL INCOME</u>		
Interest	\$ 9,171	\$ 34,483
Transfer Fees (Flip Tax)	<u>60,096</u>	<u>55,976</u>
<u>TOTAL FINANCIAL INCOME</u>	<u>\$ 69,267</u>	<u>\$ 90,459</u>
 <u>OTHER INCOME</u>		
Laundry Commissions	\$ 147,687	\$ 58,008
Miscellaneous (See Schedule)	<u>163,631</u>	<u>160,434</u>
<u>TOTAL OTHER INCOME</u>	<u>\$ 311,318</u>	<u>\$ 218,442</u>

The accompanying auditors' report and notes are an integral part of these statements.

RIVIERA TOWERS CORPORATION

Comparative Schedules of Income

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2003</u>
Storage	\$ 56,170	\$ 57,814
Cable Service	28,969	27,478
Gymnasium	34,105	26,872
Tenant Processing & Application Fees	11,250	9,495
Late Fees	13,782	12,306
Miscellaneous Tenant Charges	<u>19,355</u>	<u>26,469</u>
<u>TOTAL MISCELLANEOUS INCOME</u>	<u>\$ 163,631</u>	<u>\$ 160,434</u>

The accompanying auditors' report and notes are an integral part of these statements.

