

RIVIERA TOWERS CORPORATION

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

NOVEMBER 30, 2005

RIVIERA TOWERS CORPORATION

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November 30, 2005

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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, 2005 and November 30, 2004, 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, 2005 and November 30, 2004, 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 and financial expenses, 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,

Bildner + Giannasco

BILDNER & GIANNASCO, LLP
Certified Public Accountants

Jericho, New York
February 9, 2006

RIVIERA TOWERS CORPORATION**Comparative Balance Sheets**

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>NOVEMBER 30, 2005</u>	<u>NOVEMBER 30 2004</u>
<u>CURRENT LIABILITIES</u>		
Accounts Payable	\$ 89,770	\$ 180,643
Accrued Mortgage Interest Payable	60,031	60,811
Accrued Operating Expenses	57,327	9,232
Mortgage Payable	179,454	168,876
Lease Payable	-	14,795
Prepaid Income	70,038	93,705
	<hr/>	<hr/>
<u>TOTAL CURRENT LIABILITIES</u>	\$ 456,620	\$ 528,062
	<hr/>	<hr/>
<u>SECURITY DEPOSITS PAYABLE-See Contra</u>	\$ 85,180	\$ 86,218
	<hr/>	<hr/>
<u>LONG TERM LIABILITIES</u>		
Mortgage Payable	\$ 12,800,165	\$ 12,979,619
	<hr/>	<hr/>
<u>TOTAL LIABILITIES</u>	\$ 13,341,965	\$ 13,593,899
	<hr/>	<hr/>
<u>COMMITMENTS AND CONTINGENCIES</u>		
<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	9,880,090	9,711,214
Reserve for Capital Projects	930,831	746,631
Retained Earnings (Deficit)	(12,060,158)	(11,871,832)
Treasury Stock at Cost	-	(121,595)
	<hr/>	<hr/>
<u>TOTAL STOCKHOLDERS' EQUITY</u>	\$ (1,163,760)	\$ (1,450,105)
	<hr/>	<hr/>
<u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>	\$ 12,178,205	\$ 12,143,794
	<hr/> <hr/>	<hr/> <hr/>

RIVIERA TOWERS CORPORATION

Comparative Statements of Income

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2005</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>
<u>INCOME</u>		
Carrying Charges and Other Rentals	\$ 5,035,869	\$ 4,857,500
Financial Income	73,885	69,267
Other Income	248,822	311,318
	<u> </u>	<u> </u>
<u>TOTAL INCOME</u>	<u>\$ 5,358,576</u>	<u>\$ 5,238,085</u>
<u>EXPENSES</u>		
Administrative	\$ 239,275	\$ 255,080
Operating	862,298	789,532
Maintenance	1,088,800	1,058,942
Taxes and Insurance	1,631,433	1,601,430
Financial	749,411	1,918,301
	<u> </u>	<u> </u>
<u>TOTAL EXPENSES</u>	<u>\$ 4,571,217</u>	<u>\$ 5,623,285</u>
<u>NET INCOME (LOSS) BEFORE DEPRECIATION</u>	<u>\$ 787,359</u>	<u>\$ (385,200)</u>
<u>DEPRECIATION</u>	<u>790,634</u>	<u>759,690</u>
	<u> </u>	<u> </u>
<u>NET (LOSS) FOR YEAR</u>	<u>\$ (3,275)</u>	<u>\$ (1,144,890)</u>

The accompanying audit 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, 2004</u>	\$ 85,477	\$ 9,711,214	\$ 746,631	\$ (11,871,832)	\$ (121,595)	\$ (1,450,105)
<u>NET (LOSS) FOR YEAR</u>	-	-	-	(3,275)	-	(3,275)
<u>MORTGAGE AMORTIZATION</u>	-	168,876	-	(168,876)	-	-
<u>PURCHASE OF TREASURY STOCK</u>	-	-	-	-	(14,380)	(14,380)
<u>SALE OF TREASURY STOCK</u>	-	-	-	-	135,975	135,975
<u>NET INCREASE ON SALE OF TREASURY STOCK</u>	-	-	-	168,025	-	168,025
<u>NET TRANSFERS TO APPROPRIATED</u> <u>RETAINED EARNINGS</u>	-	-	184,200	(184,200)	-	-
<u>BALANCE AT NOVEMBER 30, 2005</u>	<u>\$ 85,477</u>	<u>\$ 9,880,090</u>	<u>\$ 930,831</u>	<u>\$ (12,060,158)</u>	<u>\$ -</u>	<u>\$ (1,163,760)</u>
<u>ALANCE 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>

The accompanying audit 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>2005</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net (Loss) for Year	\$ (3,275)	\$ (1,144,890)
Adjustments to Reconcile Net (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	790,634	759,690
Amortization - Finance Costs	14,065	96,411
<u>Changes in Assets and Liabilities:</u>		
<u>(Increase) Decrease in:</u>		
Tenants' Accounts Receivable	26,032	(15,175)
Other Accounts Receivable	7,242	(8,488)
Prepaid Expenses	(10,462)	24,434
<u>Increase (Decrease) in:</u>		
Accounts Payable	(90,873)	21,869
Accrued Interest Payable	(780)	(14,343)
Accrued Operating Costs	48,095	(135)
Prepaid Income	(23,667)	63,236
	<hr/>	<hr/>
<u>NET CASH PROVIDED (USED) BY</u>		
<u>OPERATING ACTIVITIES (Forward)</u>	<u>\$ 757,011</u>	<u>\$ (217,391)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital Expenditures	\$ (566,414)	\$ (1,184,080)
Mortgage Escrow Deposits	106,825	(116,521)
	<hr/>	<hr/>
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u>	<u>\$ (459,589)</u>	<u>\$ (1,300,601)</u>
(Forward)		

RIVIERA TOWERS CORPORATION

Comparative Statements of Cash Flows

	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2005</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>
<u>NET CASH PROVIDED (USED) BY</u> <u>OPERATING ACTIVITIES (Forward)</u>	<u>\$ 757,011</u>	<u>\$ (217,391)</u>
<u>NET CASH (USED) BY INVESTING ACTIVITIES</u> (Forward)	<u>\$ (459,589)</u>	<u>\$ (1,300,601)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds from Mortgage Financing	\$ -	\$ 13,200,000
Finance Costs Incurred	-	(126,583)
Reduction of Lease Payable	(14,795)	(13,661)
(Increase) Decrease in Due from Capital Project Res. Fund	(105,288)	18,909
Net Increase (Decrease) to Capital Projects Reserve	(184,200)	289,036
Carrying Cost of Treasury Stock	121,595	(13,825)
Gain on Sale of Treasury Stock	168,025	-
Mortgage Amortization	<u>(168,876)</u>	<u>(11,692,390)</u>
<u>NET CASH PROVIDED (USED) BY</u> <u>FINANCING ACTIVITIES</u>	<u>\$ (183,539)</u>	<u>\$ 1,661,486</u>
<u>NET INCREASE IN CASH</u> <u>AND CASH EQUIVALENTS</u>	<u>\$ 113,883</u>	<u>\$ 143,494</u>
<u>CASH AND CASH EQUIVALENTS,</u> <u>BEGINNING OF YEAR</u>	<u>444,374</u>	<u>300,880</u>
<u>CASH AND CASH EQUIVALENTS, END OF YEAR</u>	<u>\$ 558,257</u>	<u>\$ 444,374</u>
Supplemental Disclosure of Cash Flow Information:		
Interest Paid	<u>\$ 735,477</u>	<u>\$ 850,543</u>

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

RIVIERA TOWERS CORPORATION

Notes to Financial Statements

November 30, 2005

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	\$ 99,583
Insurance	<u>144,785</u>
	<u>\$244,368</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, 2005.

4- PREPAID EXPENSES

Prepaid Expenses may be summarized as follows:

Miscellaneous Prepaid Expenses	\$ 4,890
Real Estate Taxes	112,236
Insurance	39,425
Sewer Charges	<u>7,296</u>
	<u>\$163,847</u>

5- RESERVE FUNDS

The Corporation provides for the funding of a reserve for future capital expenditures of \$544,320. The Corporation also added an additional \$275,000 to the fund from the proceeds of the sale of treasury stock. During the current year funds were expended in the amount of \$635,120, leaving a balance in the reserve funds of \$930,831.

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.

Payments, including interest, over the next five years are as follows:

November 30, 2006	\$ 904,356
November 30, 2007	904,356
November 30, 2008	904,356
November 30, 2009	904,356
November 30, 2010	904,356
Thereafter	<u>11,979,454</u>
	\$16,501,234
Less: Imputed Interest	(3,521,615)
Current Maturity	<u>(179,454)</u>
	<u>\$12,800,165</u>

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 recorded as additional costs of the treasury stock. During the current fiscal year the corporation sold its treasury stock at a gain of approximately \$168,000.

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, 2005
(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

	Individual Reserve Budgets & Cash Flows for the Next 20 Years										
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	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	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	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)	(684,047)	(415,985)	(192,122)	(572,357)	(204,246)	
Anticipated Reserves at Year End	\$931,072	505,761	521,527	329,029	733,815	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	2,398,961	2,351,547	1,696,295	1,374,773	1,339,809
Plus Recommended Reserve Contributions	611,100	631,900	653,400	675,300	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)	(204,943)	(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

RIVIERA TOWERS CORPORATION**Schedule of Reserves and Reserve Funds
For the Year Ended November 30, 2005**

	<u>TOTAL</u>
<u>RESERVES AND FUND BALANCES</u>	
<u>DECEMBER 1, 2004</u>	\$ 746,631
<u>ADDITIONS</u>	<u>819,320</u>
	<u>\$ 1,565,951</u>
<u>CHARGES:</u>	
General Building	\$ 44,514
Plumbing Repairs	38,738
Electrical Repairs	2,712
Decorating Expense	16,012
Building Improvements	488,617
Building Equipment	7,527
Security Equipment	1,001
Concrete and Masonry	896
Pool	<u>35,103</u>
	<u>\$ 635,120</u>
<u>RESERVES AND FUND BALANCES,</u>	
<u>NOVEMBER 30, 2005</u>	<u>\$ 930,831</u>

The accompanying audit 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>2005</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>
<u>INCOME FROM CARRYING CHARGES</u>		
<u>AND OTHER RENTALS</u>		
Carrying Charges	\$ 4,677,817	\$ 4,497,114
Apartment Rentals	6,955	17,680
Commercial Rentals	<u>351,097</u>	<u>342,706</u>
<u>TOTAL INCOME FROM CARRYING CHARGES</u>	<u>\$ 5,035,869</u>	<u>\$ 4,857,500</u>
<u>AND OTHER RENTALS</u>		
 <u>FINANCIAL INCOME</u>		
Interest	\$ 16,193	\$ 9,171
Transfer Fees (Flip Tax)	<u>57,692</u>	<u>60,096</u>
<u>TOTAL FINANCIAL INCOME</u>	<u>\$ 73,885</u>	<u>\$ 69,267</u>
 <u>OTHER INCOME</u>		
Laundry Commissions	\$ 48,262	\$ 147,687
Miscellaneous (See Schedule)	<u>200,560</u>	<u>163,631</u>
<u>TOTAL OTHER INCOME</u>	<u>\$ 248,822</u>	<u>\$ 311,318</u>

The accompanying audit 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>2005</u>	<u>YEAR ENDED</u> <u>NOVEMBER 30,</u> <u>2004</u>
Storage	\$ 64,743	\$ 56,170
Cable Service	42,307	28,969
Gymnasium	35,326	34,105
Tenant Processing & Application Fees	12,105	11,250
Terrace Enclosures	8,354	-
Late Fees	15,899	13,782
Miscellaneous Tenant Charges	<u>21,826</u>	<u>19,355</u>
<u>TOTAL MISCELLANEOUS INCOME</u>	<u>\$ 200,560</u>	<u>\$ 163,631</u>

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

