218-220 OWNERS CORP.

Financial Statements
for the years ended
December 31, 2017 and 2016

Cesarano & Khan, PC
Certified Public Accountants

C&K

**Cesarano & Khan, PC**
**Certified Public Accountants**

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
218-220 Owners Corp.:

***Report on the Financial Statements***

We have audited the accompanying financial statements of 218-220 Owners Corp., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity (deficit) and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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 and fair presentation 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 218-220 Owners Corp. as of December 31, 2017 and 2016, 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.

***Other Matter***

Management has omitted the information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

*Cesarano & Khan, CPAs, PC*

Floral Park, New York
March 30, 2018

199 Jericho Turnpike, Suite 400, Floral Park, NY 11001 • Telephone: (516) 437-8200 • Facsimile: (516) 437-8325

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

BALANCE SHEETS

December 31, 2017 and 2016

## ASSETS

| | 2017 | 2016 |
|---|---|---|
| Cash: | | |
| Operating - JP Morgan Chase Bank, N.A.- checking | $ 68,492 | $ 85,795 |
| Reserve - JP Morgan Chase Bank, N.A. - money market | 387,615 | 324,926 |
| Reserve - New York Community Bank - capital reserve | 25,200 | 25,175 |
| Maintenance charges and other receivables | 2,937 | 3,310 |
| Mortgage escrow | 45,015 | 44,690 |
| Prepaid expenses | 67,943 | 61,506 |
| Property and equipment, net of accumulated depreciation of $2,105,924 and $2,081,387 respectively | 536,601 | 561,138 |
| Deposit | 22,000 | -0- |
| Total assets | $ 1,155,803 | $ 1,106,540 |

## LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | 2017 | 2016 |
|---|---|---|
| Accounts payable and accrued expenses | $ 27,507 | $ 27,531 |
| Maintenance charges and rents received in advance | 13,743 | 12,727 |
| Tax abatement and exemptions payable | 85,746 | 89,663 |
| Security deposit payable | 37,405 | -0- |
| Mortgage note payable, net of unamortizated debt issuance cost of $12,910 and $17,471, respectively | 1,084,282 | 1,104,703 |
| Total liabilities | 1,248,683 | 1,234,624 |
| | | |
| Stockholders' equity (deficit): | | |
| Common stock, par value $1.00; authorized 20,000 shares; issued 5,933 shares; outstanding 5,211 shares | 5,933 | 5,933 |
| Additional paid-in capital | 2,585,030 | 2,560,048 |
| Accumulated deficit | (2,480,066) | (2,490,288) |
| Treasury stock, at cost; 722 shares | (203,777) | (203,777) |
| Total stockholders' equity (deficit) | (92,880) | (128,084) |
| | | |
| Total liabilities and stockholders' equity (deficit) | $ 1,155,803 | $ 1,106,540 |

The accompanying notes are an integral
part of these financial statements.

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

STATEMENTS OF OPERATIONS

for the years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| REVENUES: | | |
| Maintenance charges, net | $ 311,733 | $ 311,330 |
| Less: tax abatement and exemptions | (44,954) | (48,191) |
| Less: mortgage amortization | (24,982) | (23,766) |
| Special assessments, net | 50,860 | 54,715 |
| Commercial rent | 65,333 | 68,819 |
| Rent - treasury shares | 66,821 | 65,940 |
| Transfer fees | 12,450 | 8,235 |
| Interest and dividend | 310 | 330 |
| Other | 3,316 | 24,374 |
| Total revenues | 440,887 | 461,786 |
| EXPENSES: | | |
| Janitorial services | 15,100 | 14,500 |
| Real estate taxes | 200,924 | 186,201 |
| Interest | 55,437 | 56,658 |
| Utilities - electric and gas | 2,226 | 2,696 |
| Utilities - heating fuel | 26,585 | 16,988 |
| Water and sewer | 18,444 | 20,833 |
| Repairs, maintenance and supplies | 24,135 | 32,089 |
| Insurance | 24,424 | 23,852 |
| Management fees | 18,000 | 18,000 |
| Legal | 6,620 | 9,416 |
| Audit and taxes | 7,300 | 7,150 |
| Other | 1,592 | 1,979 |
| Income taxes | 780 | 2,235 |
| Total expenses before depreciation and amortization | 401,567 | 392,597 |
| Excess of revenues over expenses before depreciation and amortization | 39,320 | 69,189 |
| Depreciation and amortization | (29,098) | (29,254) |
| Excess of revenues over expenses | $ 10,222 | $ 39,935 |

The accompanying notes are an integral
part of these financial statements.

218 - 220 OWNERS CORP.

(A Cooperative Housing Cooperation)

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

for the years ended December 31, 2017 and 2016

| | Common Stock | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total Stockholders' Equity (Deficit) |
|---|---|---|---|---|---|
| Balance as of December 31, 2015 | $ 5,933 | $ 2,536,282 | $ (2,530,223) | $ (203,777) | $ (191,785) |
| Mortgage amortization | -0- | 23,766 | -0- | -0- | 23,766 |
| Excess of revenues over expenses | -0- | -0- | 39,935 | -0- | 39,935 |
| Balance as of December 31, 2016 | 5,933 | 2,560,048 | (2,490,288) | (203,777) | (128,084) |
| Mortgage amortization | -0- | 24,982 | -0- | -0- | 24,982 |
| Excess of revenues over expenses | -0- | -0- | 10,222 | -0- | 10,222 |
| Balance as of December 31, 2017 | $ 5,933 | $ 2,585,030 | $ (2,480,066) | $ (203,777) | $ (92,880) |

The accompanying notes are an integral part of these financial statements.

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

STATEMENTS OF CASH FLOWS

for the years ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Excess of revenues over expenses | $ 10,222 | $ 39,935 |
| Adjustments for noncash and operating items: | | |
| Depreciation and amortization | 29,098 | 29,254 |
| Change in operating assets and liabilities: | | |
| Maintenance charges and other receivables | 373 | 188 |
| Prepaid expenses | (6,437) | (13,463) |
| Accounts payable and accrued expenses | (24) | (2,606) |
| Maintenance charges and rents received in advance | 1,016 | (3,944) |
| Tax abatement and exemptions payable | (3,917) | 479 |
| Net cash provided by operating activities | 30,331 | 49,843 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Mortgage escrow | (325) | 1,846 |
| Deposit | (22,000) | -0- |
| Net cash (used in) provided by investing activities | (22,325) | 1,846 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Mortgage note principal payments | (24,982) | (23,766) |
| Maintenance payments applicable to note amortization | 24,982 | 23,766 |
| Security deposit payable | 37,405 | -0- |
| Net cash provided by financing activities | 37,405 | -0- |
| Net increase in cash | 45,411 | 51,689 |
| Cash, beginning of year | 435,896 | 384,207 |
| Cash, end of year | $ 481,307 | $ 435,896 |
| SUMMARY OF CASH: | | |
| Operating - JP Morgan Chase Bank, N.A. - checking | $ 68,492 | $ 85,795 |
| Reserve - JP Morgan Chase Bank, N.A. - money market | 387,615 | 324,926 |
| Reserve - New York Community Bank - capital reserve | 25,200 | 25,175 |
| Total cash | $ 481,307 | $ 435,896 |
| SUPPLEMENTARY INFORMATION: | | |
| Interest paid | $ 55,541 | $ 56,757 |
| Income taxes paid | $ 288 | $ 180 |

The accompanying notes are an integral
part of these financial statements.

1. Organization:

218-220 Owners Corporation (the "Corporation"), was incorporated in the State of New York on June 13, 1986, as a cooperative housing corporation. The Corporation acquired the premises located at 218 and 220 East 82$^{nd}$ Street, New York, New York, consisting of 40 residential apartments and 2 commercial units.

A Board of Directors, elected by the shareholders, governs the affairs of the Corporation. Directors, as such, receive no compensation for their services. The Board of Directors retains a management agent to operate the day-to-day activities of the property including certain administrative and bookkeeping services.

2. Date of Management Review:

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 30, 2018, the date the financial statements were available to be issued.

3. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America.

Pervasiveness of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents:

The Corporation considers all highly liquid investments with little to no exposure to credit, market and liquidity risks, with original maturities of three months or less to be classified as cash equivalents.

Concentration of Credit Risk:

The Corporation maintains its cash and cash equivalents with major financial institutions. Balances, at times, may exceed the Federal Deposit Insurance Corporation ("FDIC") limits currently $250,000 per financial institution. The Corporation performs periodic evaluations of the relative credit standing of these financial institutions and also evaluates its balance with each institution in order to limit the amount of credit exposure.

Shareholder Receivables:

The Corporation's policy is to initiate summary non-payment proceedings against the stockholders whose assessments are 90 days in arrears. The Corporation has a first lien upon the shares owned by shareholders for indebtedness arising under the provisions of the proprietary lease. The Corporation believes that the fair market value of delinquent shares is sufficient to cover most charges in arrears. As a result, no allowance for uncollectible charges is deemed necessary.

Property and Equipment:

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful life of the asset. Capitalized amounts include expenditures, which materially extend the useful life of existing assets. Expenditures for repairs and maintenance, which do not materially extend the useful life of the related asset, are charged to expense as incurred.

Continued

Long-Lived Assets:

The Corporation reviews real estate assets for possible impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If there is an indication of impairment, management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. Preparation of estimated future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions. Through December 31, 2017 and 2016, management believes no indicators of impairment exist.

Mortgage Costs:

Mortgage costs are amortized on the straight-line method over the term of the loan. Amortization on the interest method would not be materially different. Deferred costs of $45,606 were incurred in connection with the mortgage note as discussed in Note 5.

Reclassification of Debt Issuance Costs:

Certain reclassification has been made to the 2016 balance sheet to reflect a change in the presentation of the unamortized debt issuance costs from deferred charges to a deduction from the carrying amount of that debt liability to conform to the 2017 presentation of the financial statements. Such reclassification has no effect on net results previously reported.

Maintenance Charges:

Maintenance charges are based on an annual budget determined by the Board of Directors. Shareholders are billed monthly based on their respective share holdings. The Corporation retains excess operating funds, if any, at the end of the operating year, for use in future operating periods. Maintenance charges are recognized as revenue in the year to which it applies. Maintenance charges received in advance are reported as a liability.

Transfer Fees:

The Corporation has an apartment transfer fee policy that charges the seller of shares of stock 1% of the total selling price of an individual unit, in order to transfer shares to a new owner.

4. Property and Equipment:

The components of property and equipment were as follows:

| | 2017 | 2016 |
|---|---|---|
| Land | $295,000 | $295,000 |
| Building | 1,672,802 | 1,672,802 |
| Building improvements | 674,723 | 674,723 |
| | 2,642,525 | 2,642,525 |
| Less: accumulated depreciation | (2,105,924) | (2,081,387) |
| | $536,601 | $561,138 |

5. Mortgage Note Payable:

On October 28, 2010, the Corporation entered into a mortgage note payable, secured by the land and building, with New York Community Bank ("NYCB"). The mortgage, in the initial principal amount of $1,250,000, is for a ten year period maturing on November 1, 2020. The mortgage provides for constant monthly payments of $6,710 consisting of interest at the rate of 5.00% per annum until maturity on November 1, 2020 and principal payments based upon a thirty-year amortization schedule.

Continued

Mortgage Note Payable (continued):

The mortgage may be prepaid with a prepayment penalty of 5.00% for years one and year two, 4.00% for years three and four, 3.00% for years five and six, 2.00% for years seven and eight, 1.00% during year nine and the first nine months of year ten, and thereafter without penalty.

In addition the Corporation shall pay each month into an escrow account 1/12th of the annual real estate taxes and other charges as estimated by NYCB.

Principal maturities of the mortgage are as follows:

| | |
|---|---|
| 2018 | $26,260 |
| 2019 | 27,604 |
| 2020 | 1,043,328 |
| | 1,097,192 |
| Less unamortized debt issuance cost | (12,910) |
| | $1,084,282 |

The Corporation made $24,982 and $23,766, in principal payments during the years ended December 31, 2017 and 2016, respectively.

As of December 31, 2017, the Corporation made a good faith deposit payment of $22,000 to NYCB, to refinance its existing mortgage note. An additional payment of $100,000, was made in January 2018.

6. Treasury Stock:

At December 31, 2017 and 2016, the Corporation owned 722 shares of its common stock allocated to five apartments with a total cost of $203,777.

7. Income Taxes:

Pursuant to a 1996 United States Tax Court decision, the Corporation prepares its tax returns under the provisions of Subchapter T of the Internal Revenue Code. Subchapter T requires the allocation of patronage and non-patronage source income. In addition, Subchapter T provides that expenses attributable to the generation of patronage income, i.e., income from business done with or for patrons (tenant cooperators), are deductible only to the extent of patronage income. The Corporation believes that all of its income is patronage income within the meaning of Subchapter T. The Corporation also qualified under Section 216 of the Internal Revenue Code. This section permits tenant-shareholders to deduct, on their own tax returns, their proportionate share of real estate taxes and mortgage interest that is deductible by the Corporation.

The Corporation had net operating loss carryfowards for Federal income tax purposes for the years ended December 31, 2017 and 2016, and as a result was not subject to Federal income tax. Such carryforwards were approximately $1,187,769, which expire, if not utilized, between 2018 and 2035. The Corporation was however subject to certain state and local minimum franchise taxes based upon the Corporation's capital base. The rate of tax is .04% for each taxing authority.

The Corporation provided a 100% valuation allowance in its deferred tax assets relating to the Corporation's net operating loss carryforwards. Management believes the valuation allowance if required based upon the Corporation's history of loses, thereby concluding that it is more likely than not that the Corporation will not realize the deferred tax asset.

Continued

Income Taxes (continued):

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act, among other things, includes changes to U.S. federal tax rates, immediate deductions for certain new investments instead of deductions for depreciation expense over time, limits for the deduction for net operating losses to 80% of current year taxable income and the elimination of net operating loss carrybacks, as well as modifying or repealing certain business deductions and credits. We do not expect tax reform to have a material impact to our tax projection or to our net operating losses. We continue to examine the impact this tax reform legislation may have on our Corporation.

With few exceptions, the Corporation is no longer subject to U.S. federal, state and local income tax exemptions by tax authorities for years before 2013.

8. Special Assessments:

The Corporation implemented special assessments of approximately $9.76 and $10.50 per outstanding share during the years ended December 31, 2017 and 2016, respectively, to offset credits issued to shareholders eligible for NYC co-op tax abatements.

9. Management Fee:

The Corporation retained Robert Eberhart Real Estate to act as the managing agent of the property. The management fees for the years ended December 31, 2017 and 2016, were $18,000, in each year.

10. Future Major Repairs and Replacements:

The Corporation has omitted a study to determine the remaining useful lives of the components of the property and current estimates of the costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular maintenance, pass special assessments, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time.