218-220 OWNERS CORP.

Financial Statements
for the years ended
December 31, 2022 and 2021

Cesarano & Khan, PC
Certified Public Accountants

C&K

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying financial statements of 218-220 Owners Corp. (the Corporation), which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

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, which 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 this missing information.

Cesarano & Khan, CPAs, PC

Floral Park, New York
May 31, 2023

218-220 OWNERS CORP.

(A Cooperative Housing Corporation)

BALANCE SHEETS

December 31, 2022 and 2021

ASSETS

	2022	2021
Cash:		
Operating - JP Morgan Chase Bank, N.A. - checking	90,380	156,846
Reserve - JP Morgan Chase Bank, N.A. - money market	38,837	12,187
Reserve - New York Community Bank, N.A. - capital reserve	30,028	30,022
Investment:		
Charles SCHWAB - investment account	130,425	129,331
Shareholder receivables	4,606	57,683
Prepaid expenses	9,503	8,935
Property and equipment, net of accumulated depreciation of $2,225,104 and $2,203,162, respectively	429,765	450,782
Construction in progress	161,467	52,250
Total assets	$ 895,011	$ 898,036

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
Accounts payable and accrued expenses	$ 63,328	$ 46,119
Deferred revenue	12,686	7,573
Deferred capital assessment	-0-	109,431
Tax abatements and exemptions payable	47,878	52,152
Security deposits payable	40,387	13,713
Mortgage note payable	623,201	676,993
Less: unamortized debt issuance costs	(20,374)	(24,449)
Total liabilities	767,106	881,532
Stockholders' equity:		
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	3,072,611	3,018,819
Accumulated deficit	(2,746,862)	(2,804,471)
Treasury stock, at cost; 722 shares	(203,777)	(203,777)
Total stockholders' equity	127,905	16,504
Total liabilities and stockholders' equity	$ 895,011	$ 898,036

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, 2022 and 2021

	2022	2021
REVENUES:		
Maintenance charges, net	$ 319,539	$ 319,539
Less: tax abatements and exemptions	(39,285)	(40,930)
Less: mortgage amortization	(53,792)	(128,353)
Special assessments, net	57,738	46,117
Commercial rent	59,530	46,253
Rent - treasury shares	64,539	52,017
Transfer fees	15,025	7,700
Interest and dividends	1,100	32
Other	11,374	10,095
Total revenues	435,768	312,470
EXPENSES:		
Janitorial services	18,000	16,600
Real estate taxes, net of abatements	265,686	254,905
Interest	24,301	27,507
Utilities - electric and gas	3,032	3,057
Utilities - heating fuel	41,026	30,005
Water and sewer	22,305	21,706
Repairs, maintenance and supplies	17,180	27,297
Insurance	29,447	27,131
Management fees	19,200	19,200
Legal	9,449	12,108
Audit	7,500	7,500
Other	3,422	6,492
Income taxes	1,025	900
Total expenses before other items	461,573	454,408
Deficiency of revenues over expenses before other items	(25,805)	(141,938)
OTHER ITEMS:		
Capital assessment	109,431	-0-
Real estate tax refund, net of legal fees	-0-	54,041
Depreciation and amortization	(26,017)	(28,306)
Excess (deficiency) of revenues over expenses	$ 57,609	$ (116,203)

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

218-220 OWNERS CORP.

(A Cooperative Housing Corporation)

STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury stock	Total Stockholders' Equity
Balance at December 31, 2020	$ 5,933	$ 2,890,466	$ (2,688,268)	$ (203,777)	$ 4,354
Mortgage amortization	-0-	128,353	-0-	-0-	128,353
Deficiency of revenues over expenses	-0-	-0-	(116,203)	-0-	(116,203)
Balance at December 31, 2021	5,933	3,018,819	(2,804,471)	(203,777)	16,504
Mortgage amortization	-0-	53,792	-0-	-0-	53,792
Excess of revenues over expenses	-0-	-0-	57,609	-0-	57,609
Balance at December 31, 2022	$ 5,933	$ 3,072,611	$ (2,746,862)	$ (203,777)	$ 127,905

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, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenues over expenses	$ 57,609	$ (116,203)
Adjustments for noncash and operating items:		
Depreciation and amortization	26,017	28,306
Changes in operating assets and liabilities:		
Shareholder receivables	53,077	(26,657)
Prepaid expenses	(568)	(1,478)
Accounts payable and accrued expenses	17,209	15,070
Deferred revenue	5,113	(10,717)
Deferred capital assessment	(109,431)	109,431
Tax abatements and exemptions payable	(4,274)	18
Net cash provided by (used in) operating activities	44,752	(2,230)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Building improvements	(925)	-0-
Construction in progress	(109,217)	(52,250)
Charles SCHWAB - investment account	(1,094)	77,999
Security deposits payable	26,674	-0-
Net cash (used in) provided by investing activities	(84,562)	25,749
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage note principal payments	(53,792)	(128,353)
Mortgage payments applicable to note amortization	53,792	128,353
Net cash used in financing activities	-0-	-0-
Net (decrease) increase in cash	(39,810)	23,519
Cash, beginning of year	199,055	175,536
Cash, end of year	$ 159,245	$ 199,055
SUMMARY OF CASH:		
Operating account	$ 90,380	$ 156,846
Reserve accounts	68,865	42,209
Total cash	$ 159,245	$ 199,055
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 24,469	$ 30,437
Income taxes paid	$ 375	$ 1,875

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 82nd 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 May 31, 2023, 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:

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.

Concentration of Credit Risk:

The Corporation maintains its cash 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. The Corporation has not experienced and losses in such accounts as of the date of the auditors' report.

Investments:

Investments purchased by the Corporation are classified as either held-to-maturity or available-for-sale. Held-to-maturity investments are carried at cost, which approximates fair value. Available-for-sale investments are stated at fair value as determined by the most recently traded price of each investment at the balance sheet date. The net unrealized gains or losses on available-for-sale securities are reported as a component of comprehensive income (loss). The specific identification method is used to compute the realized gains and losses on debt and security investments.

Shareholder Receivables:

The Corporation's policy is to initiate summary non-payment proceedings against the individual or entity whose assessments are 90 days in arrears. Shareholder receivables at the balance sheet date represent maintenance and other charges due from shareholders. 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 charges in arrears. All shareholder receivables have been deemed collectible at both December 31, 2022 and 2021.

Continued

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.

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, 2022 and 2021, 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 $40,749 were incurred in connection with the mortgage note as discussed in Note 5.

Deferred Revenue:

Revenue is recognized as the performance obligation is satisfied at transaction amounts expected to be collected. Deferred revenue consists of prepaid monthly maintenance charges and other shareholder fees and has been recorded as the Corporation has the right to receive payment in advance for the satisfaction of performance obligations.

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. Monthly maintenance charges represent multiple performance obligations, which, on a standalone basis are not considered separate and distinct and therefore have been deemed to be a single performance obligation. Revenue is recognized as the performance obligation is satisfied at transaction amounts expected to be collected. The performance obligation for maintenance charges are satisfied over time on a daily pro-rata basis using the input method.

Transfer Fees:

The Corporation has an apartment transfer fee policy that charges the seller of shares of stock 1% of the selling price. Transfer fees are recognized as revenue as the performance obligation is satisfied at transaction amounts expected to be collected. The performance obligation for transfer fees are satisfied on the closing date of the apartment where the shares are legally transferred.

Continued

4. Property and Equipment:

The components of property and equipment were as follows:

	2022	2021
Land	$295,000	$295,000
Building	1,672,802	1,672,802
Building improvements	682,997	682,072
Equipment	4,070	4,070
	2,654,869	2,653,944
Less: accumulated depreciation	(2,225,104)	(2,203,162)
	$429,765	$450,782

5. Mortgage Note Payable:

On May 15, 2018, the Corporation entered into a mortgage note payable with New York Community Bank, secured by the land and buildings. The new mortgage, in the initial principal amount of $1,100,000, is for a ten-year term, and maturing on June 1, 2028. Monthly payment of $6,522 consists of interest at the rate of 3.75% per annum and principal based on a twenty-year amortization schedule.

The mortgage may be prepaid with a prepayment premium based upon a yield maintenance formula, as further described in the mortgage note.

The aggregate amount of required principal payments were as follows:

2023	$56,019
2024	58,156
2025	60,375
2026	62,678
2027	65,069
2028	320,904
	$623,201

The Corporation made $53,792 and $128,353, in principal payments during the years ended December 31, 2022 and 2021.

The Corporation also secured a $125,000 credit line mortgage that is co-terminus with the first mortgage, for a maximum term of ten years. The interest shall be the highest Prime Rate as published by the New York Times it is adjusted daily for the term of the loan with a minimum rate of 5%. There was no balance due on the credit line mortgage at December 31, 2022 and 2021.

6. Treasury Stock:

At December 31, 2022 and 2021, the Corporation owned 722 shares of its common stock allocated to five apartments with a total cost of $203,777.

Continued

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 the 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, which 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 on their own tax returns.

The Corporation had a net operating loss (NOL) for income tax purposes and was not subject to federal income tax as a result, IN addition the Corporation had net operating loss carryforwards of approximately $1,459,000, which includes $923,000 of losses incurred before the year 2018 that can be used to offset 100% of taxable income. The NOLs will expire between 2023 and 2037. Losses of $536,000 incurred after the year 2017 are subject to the NOL criteria based upon the year incurred.

In 2020, the CARES act temporarily and retroactively changed the NOL rules, NOLs generated in 2018, 2019, and 2020 are not subject to the 80% of income limitation if they are exhausted during the five-year carryback period or during 2018, 2019, or 2020. NOLs carried over from pre-tax Cuts and Jobs act (TCJA) years are not subject to the limitation.

In summary, the Corporation's NOLs generated prior to 2018 were subject to the pre-2018 rules, which allowed for a maximum carryback of two years and a maximum carryforward of 20 years. After the TCJA, the Corporation could only use 80% of its NOLs to offset taxable income, and carryback was no longer allowed. With the enactment of the CARES act in 2020, the Corporation is now able to carryback NOLs for up to five years, carry them forward indefinitely, and utilize 80% or 100% of NOLs depending on the tax year.

The Corporation has evaluated its tax position taken or expected to be taken in the course of preparing its tax returns to determine whether the tax positions are more likely than not sustainable upon examination by the applicable taxing authorities based on the technical merits of the tax position and then recognizing the tax benefit that is more likely than not realizable. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax expense in the current reporting period. Management believes it has no uncertain tax positions or interest and penalty that qualify for either recognition or disclosure in the financial statements.

With few exceptions, the Cooperative is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2018.

8. Deferred Capital Assessment:

The Corporation implemented a capital assessment of $21 per share in August 2021. The assessment is to fund the replacement of the front stoops.

Revenue is recognized as the performance obligation is satisfied at transaction amounts to be collected. As the capital assessment is for the explicit purpose of replacing the front stoops, the performance obligation for this capital assessment is satisfied when the funds are expended for this purpose. Deferred revenue of approximately $109,431 has been recorded in 2021, as the corporation has the right to receive payment in advance for the satisfaction of performance obligations. As of December 31, 2022 $109,431 has been recognized.

Continued

9. Special Assessment:

The Corporation implemented special assessments of approximately $11.08 and $8.85 per outstanding share during the years ended December 31, 2022 and 2021, respectively. The assessments were levied simultaneously with the New York City co-op abatement refunded for eligible units.

10. 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, 2022 and 2021, were $19,200 in each year.

11. 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.

12. Risks and Uncertainties:

Due to the rapidly changing business environment, unprecedented market volatility, and other circumstances resulting from the COVID-19 pandemic, the Corporation is currently unable to fully determine the extent of COVID-19's impact on its operations in future periods. The Corporation's performance in future periods will be heavily influenced by the timing, length, and intensity of the economic recovery. The Corporation continues to monitor evolving economic and general business conditions and the actual and potential impacts on its financial position, results of operations and cash flows.