

218-220 OWNERS CORP.

Financial Statements
as of December 31, 2011
and for the year then ended



Cesarano & Khan, PC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of 218-220 Owners Corp. (the "Corporation") as of December 31, 2011, and the related statements of operations, stockholders' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's 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 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 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 218-220 Owners Corp. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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
July 3, 2012

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

BALANCE SHEET

December 31, 2011

ASSETS

Operating:

Cash - JP Morgan Chase Bank, N.A.- checking \$ 24,914

Reserve:

Cash - JP Morgan Chase Bank, N.A. - money market 2,184

Cash - New York Community Bank - money market 25,000

Maintenance and other receivables 5,428

Prepaid expenses 49,421

Property and equipment, net of accumulated
depreciation of \$1,996,677 610,761Mortgage costs, net of accumulated
amortization of \$5,330 40,276Total assets \$ 757,984LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Accounts payable and accrued expenses \$ 53,929

Bank overdraft 672

Maintenance charges received in advance 12,934

Real estate tax abatement and exemptions payable 52,303

Income taxes payable 742

Mortgage note payable 1,229,979Total liabilities 1,350,559

Stockholders' equity (deficit):

Common stock, par value \$1.00; authorized 20,000 shares;
issued 5,933; outstanding 5,066 shares 5,933

Additional paid-in capital 1,938,677

Accumulated deficit (2,536,318)

Treasury stock, at cost; 867 shares (867)

Total stockholders' equity (deficit) (592,575)Total liabilities and stockholders' equity (deficit) \$ 757,984The accompanying notes are an integral
part of these financial statements.

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

STATEMENT OF OPERATIONS

for the year ended December 31, 2011

REVENUES:

Maintenance charges - outstanding shares	\$ 277,003
Less: tax abatement and exemptions	(35,985)
Less: mortgage amortization	(18,519)
Special assessment	31,018
Commercial rent	50,220
Rent - treasury shares	16,692
Transfer fees	6,950
Interest	596
Other	8,798
Total revenues	<u>336,773</u>

EXPENSES:

Wages	3,513
Payroll taxes	453
Real estate taxes	177,686
Interest	61,927
Electricity	3,861
Heating fuel	41,791
Water and sewer	14,079
Repairs, maintenance and supplies	14,154
Janitorial Contract	5,000
Management fees	16,800
Insurance	15,110
Legal	16,886
Audit and taxes	7,135
Income taxes	742
Other	2,372
Total expenses before depreciation and amortization	<u>381,509</u>
Deficiency of revenues over expenses before depreciation and amortization	(44,736)
Depreciation and amortization	(24,145)
Deficiency of revenues over expenses	<u>\$ (68,881)</u>

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

218 - 220 OWNERS CORP.

(A Cooperative Housing Cooperation)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

for the year ended December 31, 2011

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2010	\$ 5,933	\$ 2,204,319	\$ (2,467,437)	\$ (722)	\$ (257,907)
Mortgage amortization	-0-	18,519	-0-	-0-	18,519
Purchase of treasury stock	-0-	(284,161)	-0-	(145)	(284,306)
Deficiency of revenues over expenses	-0-	-0-	(68,881)	-0-	(68,881)
Balance as of December 31, 2011	<u>\$ 5,933</u>	<u>\$ 1,938,677</u>	<u>\$ (2,536,318)</u>	<u>\$ (867)</u>	<u>\$ (592,575)</u>

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 year ended December 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Deficiency of expenses over revenues	\$ (68,881)
Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities:	
Depreciation and amortization	24,145
Change in operating assets and liabilities:	
Maintenance and other receivables	654
Prepaid expenses	7,939
Accounts payable and accrued expenses	327
Maintenance charges received in advance	10,786
Real estate tax abatement and exemptions payable	783
Income taxes payable	(217)
Net cash used in operating activities	<u>(24,464)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Purchase of treasury shares	(284,306)
Mortgage note principal payments	(18,519)
Maintenance payments applicable to note amortization	18,519
Bank overdraft	(57)
Net cash used in financing activities	<u>(284,363)</u>

Net decrease in cash	(308,827)
Cash, beginning of year	360,925
Cash, end of year	<u>\$ 52,098</u>

SUMMARY OF CASH:

Operating - JP Morgan Chase Bank, N.A. - checking	\$ 24,914
Reserve - JP Morgan Chase Bank, N.A. - money market	2,184
Reserve - New York Community Bank - money market	25,000
	<u>\$ 52,098</u>

SUPPLEMENTARY INFORMATION:

Interest paid	\$ 62,004
Income taxes paid	\$ 959

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

218-220 OWNERS CORPORATION
(A Cooperative Housing Corporation)
NOTES to FINANCIAL STATEMENTS

December 31, 2011

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 July 3, 2012, 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 original maturities of three months or less to be cash equivalents. Checks issued but not presented to the bank may result in overdraft balances for accounting purposes. The Corporation classifies cash overdrafts, if any, as a liability on the balance sheet.

Shareholder Receivables:

The Corporation's policy is to retain legal counsel and place liens on the shares of the individual or entity whose assessments are 90 days in arrears. The Corporation has 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.

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

218-220 OWNERS CORPORATION

(A Cooperative Housing Corporation)

NOTES to FINANCIAL STATEMENTS, Continued

December 31, 2011

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.

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.

4. Property and Equipment:

The components of property and equipment were as follows:

Land	\$295,000
Building	1,672,808
Building improvements	<u>639,630</u>
	2,607,438
Less: accumulated depreciation	<u>(1,996,677)</u>
	<u>\$610,761</u>

5. Mortgage Note Payable:

The Corporation had a ten-year mortgage note payable, secured by the land and buildings, with Apple Bank for Savings. The mortgage, in the initial principal amount of \$1,300,000, provided for constant monthly payments of \$7,835 consisting of interest at the rate of 5.96% per annum until its maturity on March 1, 2013. Monthly payments included principal based upon a thirty-year amortization schedule.

On October 28, 2010, the Corporation refinanced its 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.

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:

2012	\$19,466
2013	20,462
2014	21,509
2015	22,610
2016	23,766
Thereafter	<u>1,122,166</u>
	<u>\$1,229,979</u>

Continued

218-220 OWNERS CORPORATION

(A Cooperative Housing Corporation)

NOTES to FINANCIAL STATEMENTS, Continued

December 31, 2011

6. 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 a net operating loss for federal income tax purposes, for the year ended, December 31, 2010, and as a result was not subject to federal income tax. Such tax benefits were approximately \$1,201,902, which expire, if not utilized, between 2012 and 2031. The Corporation believes it will not derive a future tax benefit in connection with the loss carryforwards, and as a result did not recognize a deferred tax asset. 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 statute of limitations for income tax filings subject to examination by taxing authorities is generally three years after the returns are filed. As a result, tax returns for 2008 through 2011 remain open to examination.

7. 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.

8. Special Assessment:

The Corporation implemented a special assessment of approximately \$5.96 per outstanding share in March 2011, to fund operating expenses.

9. Management Fee:

On March 12, 2008, the Corporation retained Robert Eberhart Real Estate to act as managing agent of the property, at a rate of \$1,400 per month. The agreement expired on March 31, 2009, and continued on a year-to-year basis, and may be terminated on a thirty-day prior written notice by either party. The management fee for the year ended December 31, 2011, was \$16,800.

Continued

218-220 OWNERS CORPORATION

(A Cooperative Housing Corporation)

NOTES to FINANCIAL STATEMENTS, Continued

December 31, 2011

10. Concentration of Credit Risk:

The Corporation maintains its cash and cash equivalents with major financial institutions. Balances, at times, may exceed 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.

11. Treasury Stock:

On November 23, 2011, the Corporation acquired 145 shares of its common stock for \$205,000 or approximately \$1,413.79 per share allocated to Apartment 3RW in Building 7.

In addition, renovations totaling \$79,306 were made to the treasury apartment during the year. At December 31, 2011, the Corporation owned 867 shares allocated to six apartments.