218-220 OWNERS CORP.

Financial Statements
for the years ended
December 31, 2014 and 2013

Cesarano & Khan, PC
Certified Public Accountants

C&K

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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, 2014 and 2013, 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 audits 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, 2014 and 2013, 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
September 4, 2015

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218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

BALANCE SHEETS

December 31, 2014 and 2013

ASSETS

	2014	2013
Operating:		
Cash - JP Morgan Chase Bank, N.A.- checking	$ 40,179	$ 53,514
Reserve:		
Cash - JP Morgan Chase Bank, N.A. - money market	275,635	318,287
Cash - New York Community Bank - capital reserve	25,000	25,000
Maintenance and other receivables	8,804	9,029
Mortgage escrow	23,358	66,449
Prepaid expenses	56,304	4,374
Property and equipment, net of accumulated depreciation of $2,059,375 and $2,035,080	604,549	589,258
Mortgage costs, net of accumulated amortization of $19,013 and $14,452	26,593	31,154
Total assets	$ 1,060,422	$ 1,097,065

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	2014	2013
Accounts payable and accrued expenses	$ 34,500	$ 60,247
Maintenance charges and rents received in advance	18,150	17,313
Tax abatement and exemptions payable	93,119	96,501
Income taxes payable	3,040	2,225
Mortgage note payable	1,168,542	1,190,051
Total liabilities	1,317,351	1,366,337
Stockholders' equity (deficit):		
Common stock, par value $1.00; authorized 20,000 shares; issued 5,933; outstanding 5,211 shares	5,933	5,933
Additional paid-in capital	2,513,680	2,492,171
Accumulated deficit	(2,572,765)	(2,563,599)
Treasury stock, at cost; 722 shares	(203,777)	(203,777)
Total stockholders' equity (deficit)	(256,929)	(269,272)
Total liabilities and stockholders' equity (deficit)	$ 1,060,422	$ 1,097,065

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, 2014 and 2013

	2014	2013
REVENUES:		
Maintenance charges	$ 308,515	$ 304,501
Less: tax abatement and exemptions	(38,431)	(41,813)
Less: mortgage amortization	(21,509)	(20,462)
Special assessments	38,750	53,413
Commercial rent	60,074	57,735
Rent - treasury shares	54,473	56,780
Transfer fees	10,470	23,935
Interest and dividend	444	710
Other	21,961	21,948
Total revenues	434,747	456,747
EXPENSES:		
Contract cleaning	13,550	13,550
Real estate taxes	188,055	181,551
Interest	58,917	59,983
Electricity	4,092	2,949
Heating fuel	42,383	42,965
Water and sewer	19,415	16,778
Repairs, maintenance and supplies	31,058	16,742
Janitorial contract	670	800
Insurance	19,281	16,662
Management fees	17,640	17,640
Legal	8,287	11,048
Audit and taxes	7,150	7,000
Income taxes	3,040	2,225
Other	1,519	2,139
Total expenses before depreciation and amortization	415,057	392,032
Excess of revenues over expenses before depreciation, amortization NYC retroactive tax abatement, exemptions and major improvements	19,690	64,715
Depreciation and amortization	(28,856)	(23,853)
NYC retroactive tax abatement and exemptions	-0-	(40,296)
Major improvements	-0-	(7,077)
Deficiency of revenues over expenses	$ (9,166)	$ (6,511)

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, 2014 and 2013

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2012	$ 5,933	$ 2,471,709	$ (2,557,088)	$ (203,777)	$ (283,223)
Mortgage amortization	-0-	20,462	-0-	-0-	20,462
Deficiency of revenues over expenses	-0-	-0-	(6,511)	-0-	(6,511)
Balance as of December 31, 2013	5,933	2,492,171	(2,563,599)	(203,777)	(269,272)
Mortgage amortization	-0-	21,509	-0-	-0-	21,509
Deficiency of revenues over expenses	-0-	-0-	(9,166)	-0-	(9,166)
Balance as of December 31, 2014	$ 5,933	$ 2,513,680	$ (2,572,765)	$ (203,777)	$ (256,929)

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of expenses over revenues	$ (9,166)	$ (6,511)
Adjustments for noncash and operating items:		
Depreciation and amortization	28,856	23,853
Change in operating assets and liabilities:		
Maintenance and other receivables	225	(4,719)
Prepaid expenses	(51,930)	44,107
Accounts payable and accrued expenses	(25,747)	8,083
Maintenance charges and rents received in advance	837	7,869
Real estate tax abatement and exemptions payable	(3,382)	53,266
Income taxes payable	815	1,140
Net cash (used in) provided by operating activities	(59,492)	127,088
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additional building improvements	(39,586)	(16,900)
Mortgage escrow	43,091	(48,793)
Net cash provided by (used in) investing activities	3,505	(65,693)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Mortgage note principal payments	(21,509)	(20,462)
Maintenance payments applicable to note amortization	21,509	20,462
Net cash provided by financing activities	-0-	-0-
Net (decrease) increase in cash	(55,987)	61,395
Cash, beginning of year	396,801	335,406
Cash, end of year	$ 340,814	$ 396,801
SUMMARY OF CASH:		
Operating - JP Morgan Chase Bank, N.A. - checking	$ 40,179	$ 53,514
Reserve - JP Morgan Chase Bank, N.A. - money market	275,635	318,287
Reserve - New York Community Bank - capital reserve	25,000	25,000
Total cash	$ 340,814	$ 396,801
SUPPLEMENTARY INFORMATION:		
Interest paid	$ 58,917	$ 60,061
Income taxes paid	$ 1,928	$ 1,013

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 September 4, 2015, 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, 2014 and 2013, 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.

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.

4. Property and Equipment:

The components of property and equipment were as follows:

	2014	2013
Land	$295,000	$295,000
Building	1,672,802	1,672,802
Building improvements	696,122	656,536
	2,663,924	2,624,338
Less: accumulated depreciation	(2,059,375)	(2,035,080)
	$604,549	$589,258

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.

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.

Continued

Mortgage Note Payable (continued):

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:

2015	$22,610
2016	23,766
2017	24,982
2018	26,260
2019	27,604
Thereafter	1,043,320
	$1,168,542

The Corporation made $21,509 and $20,462, in principal payments during the years ended December 31, 2014 and 2013, respectively.

6. 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 (218). In addition, renovations totaling $79,306 were made to the treasury apartment during the year.

At December 31, 2014 and 2013, the Corporation owned 722 shares of its common stock allocated to five apartments.

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, 2014 and 2013, and as a result was not subject to Federal income tax. Such carryforwards were approximately $1,286,204, which expire, if not utilized, between 2017 and 2034. 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.

Continued

Income Taxes (continued):

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.

Generally accepted accounting principles (GAAP) requires evaluation of the tax positions taken or expected to be taken in the course of preparing the Corporation's 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. As of December 31, 2014 and 2013, management believes any such positions, other than deferred tax assets, would be immaterial to the overall financial statements.

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 2010.

8. Special Assessments:

The Corporation implemented special assessments of $7.44 and $10.25 per outstanding share during the years ended December 31, 2014 and 2013, to fund operating expenses.

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, 2014 and 2013, were $17,640 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.