218-220 OWNERS CORP.

Financial Statements
as of December 31, 2012
and for the year then ended

Cesarano & Khan, PC
Certified Public Accountants

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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 sheet as of December 31, 2012, and the related statements of operations, stockholders' equity (deficit) and cash flows for the year 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 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 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, 2012, 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.

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 14, 2013

218 - 220 OWNERS CORP.

(A Cooperative Housing Corporation)

BALANCE SHEET

December 31, 2012

ASSETS

Operating:	
Cash - JP Morgan Chase Bank, N.A.- checking	$ 15,836
Reserve:	
Cash - JP Morgan Chase Bank, N.A. - money market	294,570
Cash - New York Community Bank - money market	25,000
Maintenance and other receivables	4,310
Mortgage escrow	17,656
Prepaid expenses	48,481
Property and equipment, net of accumulated depreciation of $2,015,788	591,650
Mortgage costs, net of accumulated amortization of $9,891	35,715
Total assets	$1,033,218

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Accounts payable and accrued expenses	$ 52,164
Maintenance charges received in advance	9,444
Real estate tax abatement and exemptions payable	43,235
Income taxes payable	1,085
Mortgage note payable	1,210,513
Total liabilities	1,316,441
Stockholders' equity (deficit):	
Common stock, par value $1.00; authorized 20,000 shares; issued 5,933; outstanding 5,211 shares	5,933
Additional paid-in capital	2,471,709
Accumulated deficit	(2,557,088)
Treasury stock, at cost; 722 shares	(203,777)
Total stockholders' equity (deficit)	(283,223)
Total liabilities and stockholders' equity (deficit)	$1,033,218

The 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, 2012

REVENUES:	
Maintenance charges - outstanding shares	$ 288,918
Less: mortgage amortization	(19,466)
Special assessment	15,198
Commercial rent	52,077
Rent - treasury shares	53,728
Transfer fees	6,500
Interest	265
Other	6,050
Total revenues	403,270
EXPENSES:	
Contract cleaning	12,909
Real estate taxes	184,073
Interest	60,976
Electricity	3,976
Heating fuel	41,985
Water and sewer - current year	18,741
Water and sewer - prior year	6,255
Repairs, maintenance and supplies	9,369
Janitorial Contract	842
Insurance	16,280
Management fees	16,800
Legal	12,317
Audit and taxes	7,000
Brokers' commission	6,000
Income taxes	890
Other	1,955
Total expenses before depreciation and amortization	400,368
Excess of revenues over expenses before depreciation and amortization	2,902
Depreciation and amortization	(23,672)
Deficiency of revenues over expenses	$ (20,770)

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, 2012

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity (Deficit)
Balance as of December 31, 2011	$ 5,933	$ 1,938,677	$ (2,536,318)	$ (867)	$ (592,575)
Mortgage amortization	-0-	19,466	-0-	-0-	19,466
(Purchase) / reissuance of treasury stock, net	-0-	513,566	-0-	(202,910)	310,656
Deficiency of revenues over expenses	-0-	-0-	(20,770)	-0-	(20,770)
Balance as of December 31, 2012	$ 5,933	$ 2,471,709	$ (2,557,088)	$ (203,777)	$ (283,223)

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Deficiency of expenses over revenues	$ (20,770)
Adjustments to reconcile deficiency of revenues over expenses to net cash used in operating activities:	
Depreciation and amortization	23,672
Change in operating assets and liabilities:	
Maintenance and other receivables	1,118
Prepaid expenses	940
Accounts payable and accrued expenses	(1,765)
Maintenance charges received in advance	(3,490)
Real estate tax abatement and exemptions payable	(9,068)
Income taxes payable	343
Net cash used in operating activities	(9,020)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Mortgage escrow	(17,656)
Net cash used in financing activities	(17,656)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Reissuance of treasury shares, net	310,656
Mortgage note principal payments	(19,466)
Maintenance payments applicable to note amortization	19,466
Bank overdraft	(672)
Net cash provided by financing activities	309,984
Net increase in cash	283,308
Cash, beginning of year	52,098
Cash, end of year	$ 335,406
SUMMARY OF CASH:	
Operating - JP Morgan Chase Bank, N.A. - checking	$ 15,836
Reserve - JP Morgan Chase Bank, N.A. - money market	294,570
Reserve - New York Community Bank - money market	25,000
Total cash	$ 335,406
SUPPLEMENTARY INFORMATION:	
Interest paid	$ 61,057
Income taxes paid	$ 547

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 March 14, 2013, 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.

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 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.

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.

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	639,630
	2,607,438
Less: accumulated depreciation	(2,015,788)
	$591,650

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.

Continued

Principal maturities of the mortgage are as follows:

2013	$20,462
2014	21,509
2015	22,610
2016	23,766
2017	24,982
Thereafter	1,097,184
	$1,210,513

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, 2012, and as a result was not subject to federal income tax. Such tax benefits were approximately $1,229,622, which expire, if not utilized, between 2017 and 2032. 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 2009 through 2012 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 $3.00 per outstanding share during the year, to fund operating expenses.

Continued

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, 2012, was $16,800.

10. 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.

On September 10, 2012, the Corporation reissued 145 shares allocated to apartment 3RE (218) in the amount of $310,656 net of expenses.

At December 31, 2012, the Corporation owned 722 shares allocated to five apartments.