

**Contello Towers #2 Corporation**

**Financial Statements and  
Supplementary Information**

**June 30, 2023 and 2022**

# **Contello Towers #2 Corporation**

## **Table of Contents**

**June 30, 2023 and 2022**

	<b>Page(s)</b>
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements</b>	
Balance Sheets	3
Statements of Revenues and Expenses	4
Statements of Cash Flows	5
Statements of Stockholders' Equity	6
Notes to Financial Statements	7 - 13
<b>Independent Auditor's Report on Supplementary Information</b>	14
Schedules of Assets and Liabilities	15
Schedules of Expenses	16 - 17
Modified Schedules of Income and Expenses	18
<b>Required Supplementary Information</b>	
Physical Needs Assessment	19



## **Independent Auditor's Report**

To the Board of Directors  
Contello Towers #2 Corporation

### **Opinion**

We have audited the accompanying financial statements of Contello Towers #2 Corporation, (a New York Corporation) which comprise the Balance Sheets as of June 30, 2023 and 2022, and the related Statements of Revenues and Expenses, Cash Flows and Stockholders' Equity for years then ended, and the related notes to the financial statements.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of Contello Towers #2 Corporation as of June 30, 2023 and 2022, and the results of its operations and cash flows for the years then ended for them to be 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Contello Towers #2 Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 U.S. generally accepted accounting principles, 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 Contello Towers #2 Corporation's ability to continue as a going concern for one year from the date the financial statements are issued.

### **Auditor's responsibilities for the Audit of the Financial Statements**

#### **Responsibilities of Management for 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 auditor's 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 GAAS 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements. In performing an audit in accordance with GAAS, 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 Contello Towers #2 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.

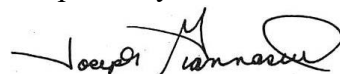
Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Contello Towers #2 Corporation's ability to continue as a going concern for a reasonable period of time.

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.

### **Disclaimer of Opinion on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Supplemental Information on Future Major Repairs and Replacements on page 19 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with their responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



JOSEPH GIANNASCO CPA, LLC  
Certified Public Accountant

Jericho, New York  
January 10, 2024

**Contello Towers #2 Corporation****Balance Sheets**

June 30, 2023 and 2022

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>CURRENT ASSETS</b>		
Tenants' Accounts Receivable	\$ 281,084	\$ 317,476
Other Accounts Receivable	914	914
Prepaid Expenses Schedule 1	22,544	189,917
<b>TOTAL CURRENT ASSETS</b>	<b>304,542</b>	<b>508,307</b>
Property and Equipment, Net (Note 5)	7,113,744	5,763,693
Cash - Equity	672,277	508,587
Reserve Funds (Note 4)	404,822	592,700
NCB Captial Improvement Funds (Note 7)	2,304,842	4,233,888
Apartment Deposits - See Contra	251,525	251,525
Settlement Receivable - Rock E. Plumbing (Note 9)	186,662	186,662
Deferred Expenses	28,625	28,625
<b>TOTAL ASSETS</b>	<b>\$ 11,267,039</b>	<b>\$ 12,073,987</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 450,274	\$ 375,498
Building Improvements Payable	239,164	330,841
Accrued Expenses Schedule 2	57,055	80,787
PPP Loan	-	91,395
Mortgage Payable	123,306	123,972
Other Current Liabilities Schedule 3	645,417	609,676
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,515,216</b>	<b>1,612,169</b>
Apartment Deposits	251,525	251,525
<b>MORTGAGE PAYABLE - Long Term - (Less Unamortized Finance Costs - See Note 7)</b>	<b>6,322,528</b>	<b>6,439,408</b>
<b>TOTAL LIABILITIES</b>	<b>8,089,269</b>	<b>8,303,102</b>
<b>STOCKHOLDERS' EQUITY</b>		
Capital Stock - Authorized, Issued and Outstanding		
304,718.6 Shs., \$5 Par Value	1,523,593	1,523,593
Additional Paid-In Capital	7,229,765	7,342,973
Retained Earnings (Deficit)	(5,575,588)	(5,095,681)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>3,177,770</b>	<b>3,770,885</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 11,267,039</b>	<b>\$ 12,073,987</b>

The accompanying notes to the financial statement are an integral part of the financial statement.

**Contello Towers #2 Corporation**  
**Statements of Revenues and Expenses**  
For the Years Ended June 30, 2023 and 2022

		<u><b>2023</b></u>	<u><b>2022</b></u>
<b>OPERATING REVENUES</b>			
Apartments		\$ 3,025,389	\$ 3,002,656
Vacancy Loss		(83,212)	(8,534)
Garages and Parking		70,700	74,071
Surcharges		162,293	169,958
Washing Machine, Dishwasher and Freezer		7,728	7,795
Laundry Commissions		48,000	48,000
Air Conditioner Charges		59,280	65,475
Late Fees		190	-
<b>TOTAL OPERATING REVENUES</b>		<u>3,290,368</u>	<u>3,359,421</u>
<b>OPERATING EXPENSES</b>			
Administrative Expenses	Schedule 4	364,139	204,793
Other Operating Expenses	Schedule 5	2,077,290	1,851,038
Maintenance Expenses	Schedule 6	455,214	267,809
Taxes and Insurance	Schedule 7	542,130	516,726
<b>TOTAL OPERATING EXPENSES</b>		<u>3,438,773</u>	<u>2,840,366</u>
<b>(DEFICIENCY) EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES</b>		(148,405)	519,055
<b>OTHER INCOME &amp; EXPENSES</b>			
Interest- Earned from Reserves		29,980	9,039
PPP Loan Forgiveness		91,395	-
Mortgage Interest		(303,181)	(309,198)
Interest on Debt Issuance Costs		(6,426)	(6,426)
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION</b>		(336,637)	212,470
<b>DEPRECIATION</b>	Schedule 8	<u>256,478</u>	<u>258,219</u>
<b>(DEFICIENCY) OF REVENUES OVER EXPENSES FOR YEAR</b>		<u>\$ (593,115)</u>	<u>\$ (45,749)</u>

The accompanying notes to the financial statement are an integral part of the financial statement.

**Contello Towers #2 Corporation**  
**Statements of Cash Flows**  
For the Years Ended June 30, 2023 and 2022

	<b><u>2023</u></b>	<b><u>2022</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Deficiency) Of Revenues		
Over Expenses For Year	\$ (593,115)	\$ (45,749)
Adjustments to Reconcile (Deficiency) of Revenue to		
Net Cash (Used) Provided by Operating Activities:		
Depreciation	256,478	258,219
PPP Loan Forgiveness	(91,395)	-
Change in Debt Issuance Costs	6,426	6,426
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Receivables	36,392	(55,517)
Prepaid Expenses	167,373	(2,501)
Cash - Equity	(163,690)	206,838
Deferred Expenses	-	(3,500)
Increase (Decrease) In -		
Accounts Payable	74,776	218,103
Accrued Expenses	(23,732)	(160,760)
Other Current Liabilities	35,741	(230,903)
<b>NET CASH (USED) PROVIDED BY OPERATING ACTIVITIES</b>	<b><u>(294,746)</u></b>	<b><u>190,656</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(1,606,529)	(2,972,637)
Building Improvements Payable	(91,677)	113,101
Proceeds from 1st Sale Capital Assessment	-	99,612
Funding of Reserves	187,878	181,817
Decrease In Capital Improvement Funds	1,929,046	1,276,564
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b><u>418,718</u></b>	<b><u>(1,301,543)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments - Mortgage Payable	(123,972)	(118,467)
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<b><u>(123,972)</u></b>	<b><u>(118,467)</u></b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>-</b>	<b>(1,229,354)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>-</u></b>	<b><u>1,229,354</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest Paid	\$ 303,911	\$ 335,428

The accompanying notes to the financial statement are an integral part of the financial statement.

**Contello Towers #2 Corporation**  
**Statements of Stockholders' Equity**  
**For the Years Ended June 30, 2023 and 2022**

	COMMON STOCK	PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
BALANCE AT JULY 1, 2022	\$ 1,523,593	\$ 7,229,765	\$ (4,982,473)	\$ 3,770,885
(DEFICIENCY) OF REVENUES OVER EXPENSES FOR YEAR	-	-	(593,115)	(593,115)
<b>BALANCE AT JUNE 30, 2023</b>	<b><u>\$ 1,523,593</u></b>	<b><u>\$ 7,229,765</u></b>	<b><u>\$ (5,575,588)</u></b>	<b><u>\$ 3,177,770</u></b>
BALANCE AT JULY 1, 2021	\$ 1,523,593	\$ 7,243,361	\$ (5,049,932)	\$ 3,717,022
(DEFICIENCY) OF REVENUES OVER EXPENSES FOR YEAR	-	-	(45,749)	(45,749)
FIRST SALE ADDITIONAL EQUITY	-	99,612	-	99,612
<b>BALANCE AT JUNE 30, 2022</b>	<b><u>\$ 1,523,593</u></b>	<b><u>\$ 7,342,973</u></b>	<b><u>\$ (5,095,681)</u></b>	<b><u>\$ 3,770,885</u></b>

The accompanying notes to the financial statement are an integral part of the financial statement.



## **Contello Towers #2 Corporation**

### **Notes to Financial Statements**

June 30, 2023 and 2022

#### **1- COMPANY BACKGROUND**

The Company is a Mitchell-Lama cooperative organized under the New York State Private Housing Law. The Company is comprised of 322 dwelling units and is located in Brooklyn, New York. The primary purpose of the Corporation is to provide apartment residences for its low to moderate income shareholders, manage the operations and maintain the common elements.

As a Limited Profit Housing Corporation, the Company is subject to the supervision of the New York City Division of Housing Preservation and Development. Accordingly, their accounts are maintained in accordance with the requirements as set forth in the accounting manual for Limited Profit Housing Companies as published by the New York City Division of Housing Preservation and Development.

#### **2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### ***Use of Estimates***

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. The more significant management estimates are the useful lives for property and equipment, unamortized finance costs, accrued expenses, and various contingencies. Actual results could differ from those estimates. Changes in facts and circumstances may result in revised estimates, which are recorded in the period in which they become known.

##### ***Cash and Cash Equivalents***

Cash equivalents include all highly liquid debt instruments with an original maturity of three months or less. Cash equivalents consist primarily of money market accounts.

##### ***Property and Equipment***

Property and Equipment are stated at cost. Major renewals and betterments are capitalized; normal maintenance and repairs are charged to operations.

Depreciation is provided by charges to operations over the estimated useful lives of the property and equipment involved, principally on the straight-line method. The estimated useful lives are as follows:

Building	20-50 Years
Building Equipment – Fixed	10-20 Years
Miscellaneous Fixed Assets	5-10 Years

##### ***Basis of Accounting***

The Company prepares its books on the accrual basis of accounting whereby revenue and related costs are recognized in the period in which the revenue is earned, or the cost incurred.

##### ***Reclassification of Prior Year Presentation***

Certain amounts in the financial statements for the year ended June 30, 2022 have been reclassified to conform to the report presentation for the period ended June 30, 2023. Such reclassifications had no effect on the previously reported net income for the period.

## **Contello Towers #2 Corporation**

### **Notes to Financial Statements**

June 30, 2023 and 2022

## **2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

### ***Impairment of Long-Lived Assets***

The Company reviews long-lived assets for impairment at the facility level annually or if events or circumstances indicate that the carrying value of such assets may not be fully recoverable. Impairment is evaluated based on the sum of undiscounted estimated future cash flows expected to result from use of the assets compared to their carrying value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impairment is recognized, the carrying value of the impaired asset is reduced to its fair value, based on discounted estimated future cash flows.

### ***Fair Value of Financial Instruments***

The Company has estimated the fair value of financial instruments using available market information and other valuation methodologies in accordance with FASB ASC 820-10 (formerly SFAS No. 157), "Disclosures about Fair Value of Financial Instruments." Management of the Company believes that the fair value of financial instruments, consisting of cash, accounts receivable, accounts payable, and accrued liabilities, approximates carrying value due to the immediate or short-term maturity associated with these instruments and that the notes payable are carried at fair value in that they carry interest rates that are comparable to similar instruments with similar maturities.

### ***Revenue Recognition***

Accounting Standards Update (ASU) No. 2014-09 In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is the result of a joint project of the FASB and the International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS"). The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The ASU provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company believes that its revenue transactions are not within the scope of Topic 606 because their revenue transactions are not with customers but with owners who elect a board to represent them and have voting rights. Accordingly, the Company has concluded that Topic 606 is not applicable to these financial statements.

## **3- CONCENTRATIONS OF CREDIT RISK**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company has interest bearing deposits with various financial institutions which exceed federally insured limits. These institutions are insured by the Federal Deposit Insurance Corporation to a maximum amount of \$250,000. At June 30, 2023, the Company's uninsured cash balance totaled \$3,979,369. Of the accounts receivable balance outstanding as of June 30, 2023 and 2022, 100% is owed from the Company shareholders. No charges receivable as of June 30, 2023 were considered uncollectible.

**Contello Towers #2 Corporation**

## Notes to Financial Statements

June 30, 2023 and 2022

**4- RESERVE FUNDS**

The Company, pursuant to a directive issued by the City of New York Department of Housing Preservation and Development (HPD), was required to establish a Reserve fund for future major repairs and replacements. This account is currently required to be funded by proceeds from the first sale equity assessment (See Note 8). Any funds drawn from the reserves are subject to approval from HPD. Reserve balances as of June 30, 2023 and 2022 are summarized as follows:

	<u><b>2023</b></u>	<u><b>2022</b></u>
Cash - Capital One	\$ 31,826	\$ 219,704
Due from Operations	<u>372,996</u>	<u>372,996</u>
	<u><u>\$ 404,822</u></u>	<u><u>\$ 592,700</u></u>

**5- PROPERTY AND EQUIPMENT**

As of June 30, 2023 and 2022, the Company had the following property and equipment:

	<u><b>2023</b></u>	<u><b>2022</b></u>
Land	\$ 261,938	\$ 261,938
Building	8,089,312	8,089,312
Building Equipment - Fixed	781,334	720,686
Furniture & Fixtures	67,257	67,257
Maintenance Equipment	1,668,594	1,668,594
Miscellaneous Fixed Assets	340,659	340,659
Work in Process	<u>5,795,944</u>	<u>4,250,063</u>
Total Property and Equipment	17,005,038	15,398,509
Less: Accumulated Depreciation	<u>9,891,294</u>	<u>9,634,816</u>
Net Property and Equipment	<u><u>\$ 7,113,744</u></u>	<u><u>\$ 5,763,693</u></u>

Fixed asset additions for the periods ended June 30, 2023 and 2022 consisted of the following:

	<u><b>2023</b></u>	<u><b>2022</b></u>
Facade	\$ 1,606,529	\$ 2,937,661
Elevator-Repl of Spider & Bearings	<u>-</u>	<u>34,976</u>
Total Additions for the Period	<u><u>\$ 1,606,529</u></u>	<u><u>\$ 2,972,637</u></u>

**Contello Towers #2 Corporation**

## Notes to Financial Statements

June 30, 2023 and 2022

**6- DUE TO SHAREHOLDERS - REAL ESTATE TAX CREDITS**

As the Company pays its quarterly real estate taxes for the 2022/2023 year, it avails itself of the credits on a quarterly basis. As of June 30, 2023, the Company had returned all tax credits in its possession. It is the intention of the Company to pass through these credits ratably to the shareholders as has been done in the past.

**7- MORTGAGE PAYABLE - NCB**

On February 11, 2020, the Company refinanced its previously existing mortgage with HDC for a mortgage with National Cooperative Bank N.A. (NCB) in the amount of \$7,000,000. The mortgage has an interest rate of 4.55%, which approximates the effective interest rate, and a term of 30 years. Monthly payments of \$35,676.24 commenced April 1, 2020. The Company was required to fund a collateral security account with NCB in the sum of \$5,000,000 for future capital repairs and improvements. These funds have been classified as a non-current asset on the Balance Sheet.

Costs incurred in completing the mortgage agreement with HDC have been capitalized. The costs of the debt are being amortized to interest expense over the term of the debt using the straight-line method. In accordance with ASU 2015-03, the unamortized amount is presented as a reduction of long-term debt on the balance sheet.

Total Debt Issuance Costs	\$	192,752
Less: Accumulated Amortization		21,741
Net Debt Issuance Costs		171,011

Principal Payments over the next five years are as follows:

		Less:	
	Gross Principal	Interest on Debt Issuance Costs	Net Principal
June 30, 2024	\$ 129,732	\$ 6,426	\$ 123,306
June 30, 2025	135,759	6,426	129,333
June 30, 2026	142,067	6,426	135,641
June 30, 2027	148,667	6,426	142,241
June 30, 2028	155,574	6,426	149,148
Thereafter	5,905,046	138,881	5,766,165
Total	\$ 6,616,845	\$ 171,011	\$ 6,445,834

## Contello Towers #2 Corporation

### Notes to Financial Statements

June 30, 2023 and 2022

#### 7- MORTGAGE PAYABLE - NCB - (Continued)

Presentation of the Mortgage payable on the financial statement as of June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Mortgage Payable	\$ 6,616,845	\$ 6,740,817
Less: Unamortized Debt Costs	<u>171,011</u>	<u>177,437</u>
	6,445,834	6,563,380
Less: Current Portion	<u>123,306</u>	<u>123,972</u>
Net Mortgage Payable	<u>\$ 6,322,528</u>	<u>\$ 6,439,408</u>

#### 8- MAINTENANCE AND FIRST SALE CAPITAL ASSESSMENT

Tenant-shareholders are subject to monthly assessments to provide funds for the Company's operating expenses, future capital acquisitions and major repairs and replacements. Tenant-shareholder receivables at the balance sheet date are stated at the amounts expected to be collected from outstanding maintenance fees due from tenant-shareholders. The Company's policy is to retain legal counsel and place liens on the shares of stock of tenant-shareholders whose assessments are delinquent. Any excess assessments at the period end are retained by the Company for use in succeeding periods.

On January 23, 2014, as per approval of HPD, a capital assessment on each apartment equal to an additional one hundred (100%) of the sellers' equity will be charged at the time the apartment is first sold. The additional equity is to be deposited separately into the Company's replacement reserve account and used for major capital improvements. The assessment was made effective February 24, 2014.

#### 9- COMMITMENTS AND CONTINGENCIES

##### *Shelter Rent Tax*

The New York City Board of Estimate has granted a real estate tax abatement to the Company equal to 80% of assessed valuation provided that such abatement shall not result in a tax that will be less than 10% of the annual shelter rent. In accordance with established procedures, the City of New York is to determine annually whether the real estate tax is to be based on the shelter rent formula or on the tax calculated on 20% of assessed valuation. As additional bills are received from the City of New York for real estate taxes, they are promptly paid and reflected as an item of expenses.

##### *Lawsuit*

The Company filed a lawsuit against Rock E. Small Plumbing and Heating Corp., Errol C. Small and Errol Brown (the "Contractor"). The Company retained the Contractor to perform a steam pipe replacement project at the Company's premises. The Company's lawsuit against the Contractor alleged various breaches and misrepresentations by the Contractor due to the Contractor's failure to perform the work according to the terms of the contract. The court granted the Company judgment in the sum of \$186,662. The judgment is subject to collection.

## **Contello Towers #2 Corporation**

### **Notes to Financial Statements**

June 30, 2023 and 2022

#### **9- COMMITMENTS AND CONTINGENCIES – (Continued)**

##### ***Façade***

On February 25, 2021, the Company entered into a contract with POFI Construction Corp perform façade and balcony work in compliance with Local Law 11. The original amount of the contract was \$4,165,491. Change orders brought the total contract price to \$5,221,685 as of the report date. Additional engineering costs will also be capitalized.

#### **10- COMPENSATED ABSENCES**

Employees of the Company are entitled to paid vacation, paid sick days and personal days off, depending on job classification, length of service and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. The Company's policy is to recognize the costs of compensated absences when actually paid to employees.

#### **11- INCOME TAXES**

The Company's year-end for tax purposes is December 31. The Company has available, for income tax purposes, net operating loss carryforwards in the approximate amount of \$2,381,259, of which losses through 2017 will expire at various periods through 2037. Due to legislation passed by the Tax Cuts and Jobs Act of 2017, losses generated in years beginning after December 31, 2017, may now be carried forward indefinitely but are limited to offsetting 80% of taxable income.

Because the Company does not anticipate significant taxable income in future periods, the deferred tax asset accounts have been fully reserved in the accompanying financial statements. In evaluating the Company's ability to recover its deferred income tax assets the company considers all available positive and negative evidence, including operating results, ongoing tax planning and forecasts of future taxable income. The valuation allowance will reduce the provision for income taxes if and when recognized.

The Company files its income tax returns in the U.S. Federal Jurisdiction. Since the Company is part of the New York City Housing Development Corporation Mitchell-Lama Program, it is exempt from New York State and New York City Tax. The Company's federal income tax returns for the last three years remain open to examination.

#### **12- EFFECTS OF COVID-19 PANDEMIC**

On March 11, 2020, the World Health Organization characterized the outbreak of new strain of coronavirus disease, known as COVID-19, as a global pandemic and recommended containment and mitigation measures.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act provides aid to small businesses through programs administered by the Small Business Administration ("SBA"). The CARES Act, among other things, includes provisions relating to payroll tax credits and deferrals, net operating loss carryback periods, alternative minimum tax credits and technical corrections to tax depreciation methods for qualified improvement property.

**Contello Towers #2 Corporation**

Notes to Financial Statements

June 30, 2023 and 2022

**12- EFFECTS OF COVID-19 PANDEMIC – (Continued)**

On May 18, 2021, the Company closed on a government subsidized loan with Capital One Bank in the amount of \$91,395 with a term of 5 years. Under the PPP the Company applied for and received full forgiveness of the loan. PPP loan forgiveness is not a taxable event.

COVID-19 and its variants continue to create significant uncertainty and the full extent of the impact will depend on numerous evolving factors that the Company can neither predict nor control, including the pandemic's duration and severity and the governmental, business, and individual responses to it.

**13- DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Company has evaluated events and transactions for potential recognition through January 10, 2024, which is the date the financial statements were available to be issued.



### **Independent Auditors' Report on Supplementary Information**

Board of Directors  
Contello Towers #2 Corporation

We have audited the accompanying financial statements of Contello Towers #2 Corporation as of and for the years ended June 30, 2023 and 2022, and our report thereon dated January 10, 2024, which expressed an unmodified opinion on those financial statements, appears on Page 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Supporting Schedules and Modified Schedules of Income and Expenses are presented for the purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

JOSEPH GIANNASCO CPA, LLC  
Certified Public Accountant

Jericho, New York  
January 10, 2024



**Contello Towers #2 Corporation**  
Schedules of Assets and Liabilities  
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>PREPAID EXPENSES</b>	<u>Schedule 1</u>	
Insurance	\$ 22,544	\$ 180,257
Real Estate Tax	-	9,660
	<u>-</u>	<u>9,660</u>
<b>TOTAL PREPAID EXPENSES</b>	<u>\$ 22,544</u>	<u>\$ 189,917</u>
<b>ACCRUED EXPENSES</b>	<u>Schedule 2</u>	
Utility Expenses	\$ 26,878	\$ 27,696
Payroll Taxes	855	855
Salaries	4,725	4,725
Real Estate Tax	-	21,952
Mortgage Interest	24,597	25,559
	<u>24,597</u>	<u>25,559</u>
<b>TOTAL ACCRUED EXPENSES</b>	<u>\$ 57,055</u>	<u>\$ 80,787</u>
<b>OTHER CURRENT LIABILITIES</b>	<u>Schedule 3</u>	
Prepaid Carrying Charges	\$ 62,949	\$ 59,376
Equity Exchange	204,635	132,933
Miscellaneous	4,837	4,837
Due To Shareholders	-	39,534
Due to Reserve Account	372,996	372,996
	<u>372,996</u>	<u>372,996</u>
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<u>\$ 645,417</u>	<u>\$ 609,676</u>

See independent auditor's report on supplementary information.

**Contello Towers #2 Corporation**  
Schedules of Expenses  
For the Years Ended June 30, 2023 and 2022

	<u><b>2023</b></u>	<u><b>2022</b></u>
<b>ADMINISTRATIVE EXPENSES</b>	<u>Schedule 4</u>	
Managing Agent's Fees	\$ 104,368	\$ 103,925
Legal Fees	126,949	28,890
Accounting	21,783	12,929
Professional Fees	46,416	21,573
Miscellaneous Administrative Expenses	<u>64,623</u>	<u>37,476</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$ 364,139</u></u>	<u><u>\$ 204,793</u></u>
<b>OTHER OPERATING EXPENSES</b>	<u>Schedule 5</u>	
Superintendent's Salary	\$ 367,101	\$ 337,568
Exterminating	17,463	15,825
Fuel	689,675	566,396
Electricity	424,346	456,786
Water and Sewer	314,778	364,794
Gas	23,855	13,253
Janitorial Supplies	48,128	25,800
Miscellaneous Operating Expenses	24,606	8,584
Security	<u>167,338</u>	<u>62,032</u>
<b>TOTAL OTHER OPERATING EXPENSES</b>	<u><u>\$ 2,077,290</u></u>	<u><u>\$ 1,851,038</u></u>
<b>MAINTENANCE EXPENSES</b>	<u>Schedule 6</u>	
Supplies	\$ 8,640	\$ 18,803
Elevator Maintenance	58,898	47,803
Uniforms	5,834	-
Grounds Maintenance and Supplies	40,959	34,678
Repairs - General	253,714	77,436
Repairs - Electrical	6,800	20,930
Repairs - Plumbing	60,656	58,220
Repairs - HVAC	<u>19,713</u>	<u>9,939</u>
<b>TOTAL MAINTENANCE EXPENSES</b>	<u><u>\$ 455,214</u></u>	<u><u>\$ 267,809</u></u>

See independent auditor's report on supplementary information.

**Contello Towers #2 Corporation**  
Schedules of Expenses – (Continued)  
For the Years Ended June 30, 2023 and 2022

	<u><b>2023</b></u>	<u><b>2022</b></u>
<b>TAXES AND INSURANCE</b>	<u>Schedule 7</u>	
Payroll Taxes	\$ 30,603	\$ 28,714
Real Estate Tax	214,239	193,116
Insurance	197,193	203,321
Union Welfare and Pension	<u>100,095</u>	<u>91,575</u>
<b>TOTAL TAXES AND INSURANCE</b>	<u><u>\$ 542,130</u></u>	<u><u>\$ 516,726</u></u>
<b>DEPRECIATION</b>	<u>Schedule 8</u>	
Building	\$ 101,159	\$ 101,318
Building Fixed	128,673	133,138
Furniture and Fixtures	2,157	2,034
Miscellaneous Fixed Assets	<u>24,489</u>	<u>21,729</u>
<b>TOTAL DEPRECIATION</b>	<u><u>\$ 256,478</u></u>	<u><u>\$ 258,219</u></u>

See independent auditor's report on supplementary information.

**Contello Towers #2 Corporation**  
Modified Schedules of Income and Expenses  
For the Years Ended June 30, 2023 and 2022

	<b>2023</b>	<b>2022</b>
<b>RENT INCOME</b>		
Apartments	\$ 3,025,389	\$ 3,002,656
Mortgage Amortization	(123,972)	(118,467)
Less: Vacancy Loss	(83,212)	(8,534)
Parking	70,700	74,071
Surcharges	162,293	169,958
<b>TOTAL RENT INCOME</b>	<b>3,051,198</b>	<b>3,119,684</b>
<b>SERVICE INCOME</b>		
Appliance Charges	67,008	73,270
Laundry Commissions	48,000	48,000
Miscellaneous Tenant Charges	190	-
<b>TOTAL SERVICE INCOME</b>	<b>115,198</b>	<b>121,270</b>
<b>OTHER INCOME</b>		
Interest	29,980	9,039
<b>TOTAL OTHER INCOME</b>	<b>29,980</b>	<b>9,039</b>
<b>TOTAL INCOME</b>	<b>3,196,376</b>	<b>3,249,993</b>
<b>EXPENSES</b>		
Managing Agent's Fees	104,368	103,925
Professional Fees	195,148	63,392
Miscellaneous Administrative Expenses	64,623	37,476
Payroll	367,101	337,568
Fuel	689,675	566,396
Electricity	424,346	456,786
Water and Sewer	314,778	364,794
Gas	23,855	13,253
Supplies	8,640	18,803
Protection Service	167,338	62,032
Miscellaneous Operating Expenses	88,862	59,087
Repairs	340,883	166,525
Elevator Maintenance	58,898	47,803
Payroll Taxes	30,603	28,714
Real Estate Tax	214,239	193,116
Insurance	197,193	203,321
Union Welfare and Pension	100,095	91,575
Mortgage Interest	303,181	309,198
Reserve Provisions	-	211
Operating Expenses Funded by Reserves	(187,878)	-
<b>TOTAL EXPENSES</b>	<b>3,505,948</b>	<b>3,123,975</b>
<b>OPERATING (DEFICIT) SURPLUS</b>	<b>(309,572)</b>	<b>126,018</b>

See independent auditor's report on supplementary information.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**CONTELLO TOWERS #2 CORPORATION**  
**PHYSICAL NEEDS ASSESSMENT**

Improvement	Estimated Replacement Cost - Short Term(\$)	Estimated Replacement Cost - Reserve Period (\$)	Estimated Annual Utility Cost Savings (\$/yr)	Potential Health Benefit (yes/no)	Urgency
					A: Critical B: Short Term (<12 months) C: Long term (1 to 15 years)
Site - Total Short Term	\$ 125,000.00	\$ 120,788.87	\$ -	Yes	B/C
Building Envelope - Total Short Term	\$ 3,369,166.00	\$ 2,935,780.00	\$ -	Yes	B/C
Interior Common Space - Total Short Term	\$ 260,608.00	\$ 190,116.00	\$ -	Yes	B/C
Apartments - Total Short Term	\$ -	\$ -	\$ -	Yes	B/C
Building Systems - Total Short Term	\$ 171,650.00	\$ 169,720.00	\$ -	Yes	B/C
Environmental - Total Short Term	\$ 80,500.00	\$ -	\$ -	Yes	B
Scope and Prelim. Cost Estimates - Total Short	\$ 3,336,800.00	\$ -	\$ -	Yes	B/C
<b>IMPROVEMENTS - TOTAL</b>	<b>\$ 7,343,724.00</b>	<b>\$ 3,416,404.87</b>	<b>\$ -</b>	<b>Yes</b>	<b>B/C</b>