

**CONTELLO TOWERS #2 CORPORATION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2022 AND 2021**

**CONTELLO TOWERS #2 CORPORATION**

**TABLE OF CONTENTS**

June 30, 2022 and 2021

	<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
Modified Schedules of Income and Expenses	17
<b>Required Supplementary Information</b>	
Physical Needs Assessment	18



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, 2022 and 2021, and the related Statements of Revenues and Expenses, Cash Flows and Stockholders' Equity 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 Contello Towers #2 Corporation as of June 30, 2022 and 2021, and the results of its operations and its cash flows and stockholders' equity for the years then ended in conformity 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**

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.

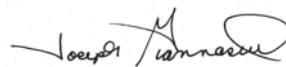
In performing an audit in accordance with GAAS, we:

- 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 18 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, economical, 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  
December 1, 2022

**CONTELLO TOWERS #2 CORPORATION****BALANCE SHEETS**

June 30, 2022 and 2021

<b>ASSETS</b>		<b>2022</b>	<b>2021</b>
<b>CURRENT ASSETS</b>			
Cash and Cash Equivalents		\$ -	\$ 1,229,354
Tenants' Accounts Receivable		317,476	261,959
Other Receivables		914	914
Prepaid Expenses	Schedule 1	189,917	31,356
<b>TOTAL CURRENT ASSETS</b>		508,307	1,523,583
Property And Equipment - Net (Note 5)		5,763,693	3,049,275
Cash - Equity		508,587	715,425
Reserve Funds (Note 4)		592,700	774,517
NCB Capital Improvement Funds (Note 8)		4,233,888	5,510,452
Apartment Deposits - See Contra		251,525	251,525
Settlement Receivable - Rock E. Plumbing (Note 10)		186,662	186,662
Deferred Expenses		28,625	25,125
<b>TOTAL ASSETS</b>		<u>\$ 12,073,987</u>	<u>\$ 12,036,564</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable		\$ 375,498	\$ 157,395
Building Improvements Payable		330,841	217,740
Accrued Expenses	Schedule 2	85,624	90,324
Mortgage Payable		123,972	118,468
Other Current Liabilities	Schedule 3	604,839	835,742
<b>TOTAL CURRENT LIABILITIES</b>		1,520,774	1,419,669
Apartment Deposits - See Contra		251,525	251,525
PPP Loan Payable - Capital One		91,395	91,395
Mortgage Payable NCB - Long Term (Face amount less unamortized debt issuance costs-see Note 8)		6,439,408	6,556,953
<b>TOTAL LIABILITIES</b>		<u>8,303,102</u>	<u>8,319,542</u>
<b>STOCKHOLDERS' EQUITY</b>			
Common Stock - 304,718.6 Shares Authorized, Issued and Outstanding at \$5.00 Par Value		1,523,593	1,523,593
Paid-In Capital		7,229,765	7,130,153
Retained Earnings (Deficit)		(4,982,473)	(4,936,724)
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<u>3,770,885</u>	<u>3,717,022</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<u>\$ 12,073,987</u>	<u>\$ 12,036,564</u>

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

**CONTELLO TOWERS #2 CORPORATION**  
**STATEMENTS OF REVENUES AND EXPENSES**  
For The Years Ended June 30, 2022 and 2021

		<b>2022</b>	<b>2021</b>
		<u>                    </u>	<u>                    </u>
OPERATING REVENUE			
Apartments		\$ 3,002,656	\$ 3,002,656
Surcharges		169,958	211,707
Appliance Charges		73,270	75,613
Parking Area		74,071	71,145
Laundry Commissions		48,000	49,448
Miscellaneous Tenant Charges		-	3,112
Vacancy Loss		<u>-</u>	<u>(4,011)</u>
<b>TOTAL OPERATING REVENUE</b>		<u>3,367,955</u>	<u>3,409,670</u>
OPERATING EXPENSES			
Administrative Expenses	Schedule 4	213,327	192,931
Other Operating Expenses	Schedule 5	1,851,038	1,717,408
Maintenance Expenses	Schedule 6	267,809	184,335
Taxes and Insurance	Schedule 7	<u>516,726</u>	<u>484,212</u>
<b>TOTAL OPERATING EXPENSES</b>		<u>2,848,900</u>	<u>2,578,886</u>
EXCESS OF OPERATING REVENUES OVER OPERATING EXPENSES		519,055	830,784
OTHER INCOME AND EXPENSES			
Interest Income		9,039	10,482
Interest - NCB Mortgage		(309,198)	(314,477)
Interest - Debt Issuance Costs		<u>(6,426)</u>	<u>(6,425)</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE DEPRECIATION		212,470	520,364
DEPRECIATION		<u>258,219</u>	<u>281,094</u>
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENSES FOR YEAR</b>		<u><u>\$ (45,749)</u></u>	<u><u>\$ 239,270</u></u>

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

# CONTELLO TOWERS #2 CORPORATION

## STATEMENTS OF CASH FLOWS

For The Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Deficiency) Excess of Revenues over Expenses for Year	\$ (45,749)	\$ 239,270
Adjustments to Reconcile Net (Deficiency) Excess to Net Cash Provided by Operating Activities:		
Depreciation	258,219	281,094
Change in Debt Issuance Costs	6,426	6,425
Changes in Assets and Liabilities:		
(Increase) Decrease In -		
Tenants' Accounts Receivable	(55,517)	(119,722)
Other Receivables	-	1,500
Prepaid Expenses	(2,501)	132,993
Cash - Equity	206,838	(41,258)
Deferred Expenses	(3,500)	(15,125)
Increase (Decrease) In -		
Accounts Payable	218,103	(72,011)
Accrued Expenses	(160,760)	(154,503)
Other Current Liabilities	(230,903)	92,224
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>190,656</u>	<u>350,887</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Fixed Assets	(2,972,637)	(1,219,813)
Increase in Building Improvements Payable	113,101	217,740
Proceeds from 1st Sale Capital Assessment	99,612	25,776
Funding of Reserves	181,817	(26,323)
NCB Capital Improvement Funds	1,276,564	(7,013)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<u>(1,301,543)</u>	<u>(1,009,633)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from PPP Loan Payable	-	91,395
Principal Payments of NCB Mortgage	(118,467)	(113,208)
<b>NET CASH (USED) BY FINANCING ACTIVITIES</b>	<u>(118,467)</u>	<u>(21,813)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,229,354)	(680,559)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,229,354</u>	<u>1,909,913</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ -</u>	<u>\$ 1,229,354</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest Paid	<u>\$ 309,647</u>	<u>\$ 314,906</u>

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

**CONTELLO TOWERS #2 CORPORATION**  
**STATEMENTS OF STOCKHOLDERS' EQUITY**  
For The Years Ended June 30, 2022 and 2021

	<u>COMMON STOCK</u>	<u>PAID-IN CAPITAL</u>	<u>RETAINED EARNINGS (DEFICIT)</u>	<u>TOTAL STOCKHOLDERS' EQUITY</u>
BALANCE AT JULY 1, 2021	\$ 1,523,593	\$ 7,130,153	\$ (4,936,724)	\$ 3,717,022
DEFICIENCY OF REVENUES OVER EXPENSES FOR YEAR	-	-	(45,749)	(45,749)
1ST SALE CAPITAL ASSESSMENT	-	99,612	-	99,612
<b>BALANCE AS OF JUNE 30, 2022</b>	<u><u>\$ 1,523,593</u></u>	<u><u>\$ 7,229,765</u></u>	<u><u>\$ (4,982,473)</u></u>	<u><u>\$ 3,770,885</u></u>
 BALANCE AT JULY 1, 2020	 \$ 1,523,593	 \$ 7,104,377	 \$ (5,175,994)	 \$ 3,451,976
EXCESS OF REVENUES OVER EXPENSES FOR YEAR	-	-	239,270	239,270
1ST SALE CAPITAL ASSESSMENT	-	25,776	-	25,776
<b>BALANCE AT JUNE 30, 2021</b>	<u><u>\$ 1,523,593</u></u>	<u><u>\$ 7,130,153</u></u>	<u><u>\$ (4,936,724)</u></u>	<u><u>\$ 3,717,022</u></u>

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



# CONTELLO TOWERS #2 CORPORATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

### 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

#### *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.

**CONTELLO TOWERS #2 CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

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

***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.

***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.

***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.

***Reclassification of Prior Year Presentation***

Certain amounts in the financial statements for the year ended June 30, 2021 have been reclassified to conform to the report presentation for the year ended June 30, 2022. Such reclassifications had no effect on the previously reported net income for the year.

**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, 2022, the Company's uninsured cash balance totaled \$4,625,440. Of the accounts receivable balance outstanding as of June 30, 2022 and 2021, 100% is owed from the Company shareholders. No charges receivable as of June 30, 2022 were considered uncollectible.

**CONTELLO TOWERS #2 CORPORATION****NOTES TO FINANCIAL STATEMENTS**

June 30, 2022 and 2021

**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 9). Any funds drawn from the reserves are subject to approval from HPD. Reserve balances as of June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Cash - Capital One	\$ 219,704	\$ 219,256
Due from Operations	<u>372,996</u>	<u>555,261</u>
Total Funds	<u>\$ 592,700</u>	<u>\$ 774,517</u>

**5- PROPERTY AND EQUIPMENT**

As of June 30, 2022 and 2021, the Company had the following property and equipment:

	<u>2022</u>	<u>2021</u>
Land	\$ 261,938	\$ 261,938
Building	8,089,312	8,089,312
Building Equipment - Fixed	1,600,483	1,514,748
Building Improvements	720,686	720,686
Building Equipment - Portable	68,111	68,111
Furniture and Fixtures	67,257	67,257
Miscellaneous Fixed Assets	340,659	340,659
Work in Progress	<u>4,250,063</u>	<u>1,363,161</u>
Total Property and Equipment	15,398,509	12,425,872
Less: Accumulated Depreciation	<u>9,634,816</u>	<u>9,376,597</u>
Net Property and Equipment	<u>\$ 5,763,693</u>	<u>\$ 3,049,275</u>

Fixed asset additions for the periods ended June 30, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Facade	\$ 2,937,661	\$ 1,095,598
Elevator-Repl of Spider & Bearings	34,976	-
Elevator Door Lock Upgrade	-	63,919
Sidewalk Shed	-	30,900
Boiler Room Piping	<u>-</u>	<u>29,396</u>
Total Additions for the Period	<u>\$ 2,972,637</u>	<u>\$ 1,219,813</u>

**CONTELLO TOWERS #2 CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

**6- DEBT ISSUANCE COSTS**

Costs incurred in completing the mortgage agreement with HDC (See Note 8) 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.

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

As the Company pays its quarterly real estate taxes for the 2021/2022 year, it avails itself of the credits on a quarterly basis. As of June 30, 2022, the Company had claimed approximately \$39,534 in tax credits. It is the intention of the Company to pass through these credits ratably to the shareholders as has been done in the past.

**8- 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.

Presentation of the Mortgage payable on the financial statement as of June 30, 2022 and 2020 is as follows:

	<u>2022</u>	<u>2021</u>
Mortgage Payable	\$ 6,740,817	\$ 6,859,284
Less: Unamortized Mortgage Costs	<u>177,437</u>	<u>183,863</u>
	6,563,380	6,675,421
Less: Current Portion	<u>123,972</u>	<u>118,468</u>
Net Mortgage Payable	<u>\$ 6,439,408</u>	<u>\$ 6,556,953</u>

**CONTELLO TOWERS #2 CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

**8- MORTGAGE PAYABLE - NCB - (Continued)**

A summary of annual maturities of long-term debt for each of the five years subsequent to June 2022 are as follows:

June 30, 2023	\$ 123,972
June 30, 2024	129,732
June 30, 2025	135,759
June 30, 2026	142,067
June 30, 2027	148,667
Thereafter	<u>6,060,620</u>
Net Mortgage Payable	<u>\$ 6,740,817</u>

**9- 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.

As per Board resolution and HPD approval, a maintenance increase of 11% was made effective April 1, 2020.

**10- 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.

## CONTELLO TOWERS #2 CORPORATION

### NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

#### 10- COMMITMENTS AND CONTINGENCIES - (Continued)

##### *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.

##### *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. Changes orders brought the total contract price to \$5,457,715 as of the report date. Additional engineering costs will also be capitalized

#### 11- 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.

#### 12- 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.

**CONTELLO TOWERS #2 CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2022 and 2021

**13- 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.

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. The loan is unsecured and guaranteed by the SBA. The loan was made available under the Paycheck Protection Program (PPP) which was introduced by the CARES Act. The loan bears an interest rate of 1%. Loan payments are deferred until the first of the following dates: 1) the date of the amount of loan forgiveness is determined and submitted to the SBA or 2) Ten (10) months from the end of the covered period for use of the loan proceeds. Under the PPP the Company can apply for full or partial forgiveness if the proceeds from the loan are used for payroll costs, mortgage/rent, and utilities. At least 60% of the proceeds must be used for payroll and related costs. The Company has submitted for loan forgiveness and believes it is probable the loan will be fully forgiven.

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.

**14- DATE OF MANAGEMENT’S REVIEW**

In preparing the financial statements, the Company has evaluated events and transactions for potential recognition through December 1, 2022, which is the date the financial statements were available to be issued.





### **Independent Auditor's Report on Supplementary Information**

Board of Directors  
Contello Towers #2 Corporation

We have audited the financial statements of Contello Towers #2 Corporation, Inc. as of and for the years ended June 30, 2022 and 2021, and our report dated December 1, 2022, which expressed an unmodified opinion, appears on pages 1 and 2. The supplementary information included in the accompanying Supporting Schedules is presented only for purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Company's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 records used to prepare the financial statements or to the financial statements themselves, 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  
December 1, 2022



**CONTELLO TOWERS #2 CORPORATION**  
**SCHEDULES OF ASSETS AND LIABILITIES**  
June 30, 2022 and 2021

	<u><b>2022</b></u>	<u><b>2021</b></u>
	<u>Schedule 1</u>	
PREPAID EXPENSES		
Prepaid Insurance	\$ 180,257	\$ 7,597
Prepaid Real Estate Taxes	<u>9,660</u>	<u>23,759</u>
<b>TOTAL PREPAID EXPENSES</b>	<u><u>\$ 189,917</u></u>	<u><u>\$ 31,356</u></u>
	<u>Schedule 2</u>	
ACCRUED EXPENSES		
Accrued Operating Expenses	\$ 60,065	\$ 64,316
Accrued Interest	<u>25,559</u>	<u>26,008</u>
<b>TOTAL ACCRUED EXPENSES</b>	<u><u>\$ 85,624</u></u>	<u><u>\$ 90,324</u></u>
	<u>Schedule 3</u>	
OTHER CURRENT LIABILITIES		
Prepaid Carrying Charges	\$ 59,376	\$ 90,285
Equity Refundable	132,933	149,273
Due to Shareholders	39,534	40,924
Due to Reserves	<u>372,996</u>	<u>555,260</u>
<b>TOTAL OTHER CURRENT LIABILITIES</b>	<u><u>\$ 604,839</u></u>	<u><u>\$ 835,742</u></u>

See independent auditor's report on supplementary information.

**CONTELLO TOWERS #2 CORPORATION****SCHEDULES OF EXPENSES**

For The Years Ended June 30, 2022 and 2021

	<u><b>2022</b></u>	<u><b>2021</b></u>
	<u>Schedule 4</u>	
<b>ADMINISTRATIVE EXPENSES</b>		
Management Fee	\$ 103,925	\$ 106,432
Legal	28,890	25,688
Accounting	12,929	13,613
Other Professional Fees	21,573	10,290
Telephone	17,457	16,242
Collection Loss	8,533	5,438
Miscellaneous Administrative Expenses	20,020	15,228
	<u>213,327</u>	<u>192,931</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<u><u>\$ 213,327</u></u>	<u><u>\$ 192,931</u></u>
	<u>Schedule 5</u>	
<b>OTHER OPERATING EXPENSES</b>		
Payroll	\$ 337,568	\$ 379,006
Fuel	566,396	393,218
Electricity	456,786	468,627
Water and Sewer	364,794	346,317
Gas	13,253	13,401
Exterminating	15,825	18,623
Supplies	25,800	25,910
Protection Service	62,032	63,540
Miscellaneous Operating Expenses	8,584	8,766
	<u>1,851,038</u>	<u>1,717,408</u>
<b>TOTAL OTHER OPERATING EXPENSES</b>	<u><u>\$ 1,851,038</u></u>	<u><u>\$ 1,717,408</u></u>
	<u>Schedule 6</u>	
<b>MAINTENANCE EXPENSES</b>		
Elevator Maintenance	\$ 47,803	\$ 47,036
Grounds Maintenance	34,678	30,884
Repair Materials and Supply	18,803	11,296
Plumbing Repairs	58,220	21,545
Heating and AC Repairs	9,939	10,084
Electrical Repairs	20,930	9,126
General Repairs	77,436	54,364
	<u>267,809</u>	<u>184,335</u>
<b>TOTAL MAINTENANCE EXPENSES</b>	<u><u>\$ 267,809</u></u>	<u><u>\$ 184,335</u></u>
	<u>Schedule 7</u>	
<b>TAXES AND INSURANCE</b>		
Real Estate Taxes	\$ 193,116	\$ 187,416
Payroll Taxes	28,714	28,080
Insurance	203,321	166,594
Union Welfare and Pension	91,575	102,122
	<u>516,726</u>	<u>484,212</u>
<b>TOTAL TAXES AND INSURANCE</b>	<u><u>\$ 516,726</u></u>	<u><u>\$ 484,212</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, 2022 and 2021

	<u><b>2022</b></u>	<u><b>2021</b></u>
RENT INCOME		
Apartments	\$ 3,002,656	\$ 3,002,656
Less: Bond and Mortgage Amortization	(118,467)	(113,208)
Parking	74,071	71,145
Surcharges	169,958	211,707
<b>TOTAL RENT INCOME</b>	<u><b>3,128,218</b></u>	<u><b>3,168,289</b></u>
SERVICE INCOME		
Appliance Charges	73,270	75,613
Laundry Commissions	48,000	49,448
Miscellaneous Tenant Charges	-	3,112
<b>TOTAL SERVICE INCOME</b>	<u><b>121,270</b></u>	<u><b>128,173</b></u>
OTHER INCOME		
Interest	9,039	10,482
<b>TOTAL OTHER INCOME</b>	<u><b>9,039</b></u>	<u><b>10,482</b></u>
<b>TOTAL INCOME</b>	<u><b>3,258,527</b></u>	<u><b>3,306,944</b></u>
EXPENSES		
Managing Agent's Fee	103,925	106,432
Professional Fees	63,392	49,591
Other Administrative Expenses	37,477	31,470
Payroll	337,568	379,006
Fuel	566,396	393,218
Electricity	456,786	468,627
Water and Sewer	364,794	346,317
Gas	13,253	13,401
Supplies	25,800	25,910
Protection Service	62,032	63,540
Other Operating Expenses	59,087	58,273
Repairs	185,328	106,415
Elevator Maintenance	47,803	47,036
Payroll Taxes	28,714	28,080
Real Estate Tax	193,116	187,416
Insurance	203,321	166,594
Union Welfare and Pension	91,575	102,122
Interest	309,198	314,477
Reserve Provisions	211	547
Operating Expenses Funded by Reserves	-	-
<b>TOTAL EXPENSES</b>	<u><b>3,158,309</b></u>	<u><b>2,893,910</b></u>
<b>OPERATING SURPLUS</b>	<u><b>\$ 100,218</b></u>	<u><b>\$ 413,034</b></u>

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>