

CANNON POINT NORTH, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

Cannon Point North, Inc.

Table of Contents

Years Ended December 31, 2017 and 2016

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Balance Sheets	3
Statements of Income and Accumulated Deficit	5
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information:	
Independent Auditor's Report on Supplementary Information	19
Schedule of Building Improvements, Equipment, And Lobby, Gym and Other Property	20

Independent Auditor's Report

To the Board of Directors and Shareholders of Cannon Point North, Inc.

We have audited the accompanying financial statements of Cannon Point North, Inc., which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income and accumulated deficit and cash flows for the years then ended, and the related notes to the financial statements.

Corporation's Responsibility for the Financial Statements

The Corporation 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 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 Cannon Point North, Inc. as of December 31, 2017 and 2016, 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.

Omission Of Required Supplementary Information About Future Repairs and Replacements

The Corporation 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.

Gettry Marcus CPA, P.C.

Gettry Marcus CPA, P.C.
Woodbury, New York
March 8, 2018

Cannon Point North, Inc.
Balance Sheets
December 31, 2017 and 2016

	2017	2016
Assets		
Cash		
Operating - checking	\$ 1,036,589	\$ 934,187
Real estate tax escrow - money market	37,579	1,169,647
Reserve fund - mortgage reserve	183,777	130,363
Reserve fund - capital reserve	2,198,400	1,167,084
	<u>3,456,345</u>	<u>3,401,281</u>
Certificates of deposit - mortgage and capital reserve funds	<u>2,390,636</u>	<u>2,398,398</u>
Accounts receivable		
Tenant-shareholders' maintenance charges	17,127	21,373
Other	25,130	24,517
	<u>42,257</u>	<u>45,890</u>
Prepaid expenses		
Real estate taxes	1,200,449	-
Insurance	26,473	20,845
Other	16,805	36,471
	<u>1,243,727</u>	<u>57,316</u>
Real property and equipment		
Land	2,004,469	2,004,469
Building	14,450,000	14,450,000
Building improvements	18,116,194	16,384,507
Equipment	732,378	732,378
Lobby, gym and other	1,292,143	1,292,143
	<u>36,595,184</u>	<u>34,863,497</u>
Accumulated depreciation	22,840,540	22,278,456
	<u>13,754,644</u>	<u>12,585,041</u>
Other assets		
Cash - security deposits	154,760	173,295
Deferred legal fees (Note 7)	157,573	207,968
	<u>312,333</u>	<u>381,263</u>
Total assets	<u>\$ 21,199,942</u>	<u>\$ 18,869,189</u>

Cannon Point North, Inc.
Balance Sheets
December 31, 2017 and 2016

	2017	2016
Liabilities and Shareholders' Equity		
Liabilities		
Mortgage payable	\$ 16,892,516	\$ 16,868,181
Accrued expenses		
Utilities	113,485	155,347
Wages	29,271	31,687
Professional fees (see Note 7)	179,323	235,374
Employee benefits	54,850	52,189
Capital improvements	240,067	21,618
Other	90,002	76,972
Total accrued expenses	706,998	573,187
Maintenance charges paid in advance	208,074	87,275
Capital assessment paid in advance (see Note 16)	164,171	-
Real estate tax abatements and exemptions payable	426,575	398,938
Tenants' security and other deposits payable	174,010	192,545
Total liabilities	18,572,344	18,120,126
Shareholders' equity		
Capital stock - \$1 par value, 170,000 shares authorized, 164,000 shares issued and outstanding	164,000	164,000
Additional paid-in capital	7,272,685	7,272,685
Accumulated deficit	(4,809,087)	(6,687,622)
Total shareholders' equity	2,627,598	749,063
Total liabilities and shareholders' equity	\$ 21,199,942	\$ 18,869,189

Cannon Point North, Inc.
Statements of Income and Accumulated Deficit
Years Ended December 31, 2017 and 2016

	2017	2016
Income		
Income from shareholders		
Maintenance charges to tenant-shareholders at the annual rate of \$55.99 per share from January 1, 2016 to December 31, 2017	\$ 9,182,360	\$ 9,182,360
Special assessments - real estate tax abatements	960,613	915,645
- mortgage reserve fund	492,000	492,000
Storage rentals	132,987	131,548
Maids' rooms	52,644	57,336
Health club and other tenant charges	68,031	36,187
Air conditioner charges	7,740	3,957
Move in/out fees	7,250	6,250
Sublet fees	11,550	1,140
Alteration fees	15,000	35,000
Late fees and other miscellaneous income	35,564	10,631
Total income from shareholders	10,965,739	10,872,054
Other income		
Garage rent	525,818	527,237
Laundry income	45,600	44,800
Interest and dividend income	86,172	50,331
Total other income	657,590	622,368
Total income	11,623,329	11,494,422
Expenses		
Operating expenses		
Labor and related costs		
Salaries and wages	1,671,539	1,634,028
Payroll taxes	137,934	135,974
Workers' compensation and disability insurance	62,902	65,451
Employees' pension and 401(k) funds	197,001	167,899
Employees' hospitalization	465,600	467,606
Uniforms, upkeep and other	23,480	28,472
Total labor and related costs	2,558,456	2,499,430
Electricity and gas	501,789	540,369
Heating	218,640	193,319
Telephone	5,409	5,821
Operating supplies and tools	66,138	76,331
Exterminating	11,303	10,366
Payroll service fees	4,928	6,582
Licenses and permits	7,735	3,576
Total operating expenses	3,374,398	3,335,794

Cannon Point North, Inc.
Statements of Income and Accumulated Deficit
Years Ended December 31, 2017 and 2016

(continued)	<u>2017</u>	<u>2016</u>
Administrative expenses		
Management fees	185,000	157,500
Legal and accounting (see Note 7)	108,616	100,420
Engineering and other professional fees	52,857	122,193
Office expense	14,785	18,017
Postage	1,539	5,833
Bank charges	4,882	7,679
Other administrative expenses	29,792	25,650
Total administrative expenses	<u>397,471</u>	<u>437,292</u>
Repairs and maintenance		
Building interior	116,277	119,294
Elevator repairs and maintenance	78,864	77,659
HVAC	30,983	22,781
Landscaping	44,359	50,487
Plumbing	94,423	79,788
Total repairs and maintenance	<u>364,906</u>	<u>350,009</u>
General expenses		
Real estate taxes - net of refund (see Note 7)	5,674,667	5,376,892
Mortgage interest	682,754	684,558
Water and sewer charges	224,041	223,426
Insurance	209,992	218,296
Income and franchise taxes	114,427	79,175
Total general expenses	<u>6,905,881</u>	<u>6,582,347</u>
Total expenses	<u>11,042,656</u>	<u>10,705,442</u>
Income from operations before depreciation, special assessment - capital improvements, and transfer fees	580,673	788,980
Depreciation - real property	(562,084)	(561,242)
Special assessment - capital improvements	1,640,000	984,000
Transfer fees	<u>219,946</u>	<u>278,000</u>
Net income	1,878,535	1,489,738
Accumulated deficit - Beginning of year	<u>(6,687,622)</u>	<u>(8,177,360)</u>
Accumulated deficit - End of year	<u><u>\$ (4,809,087)</u></u>	<u><u>\$ (6,687,622)</u></u>

Cannon Point North, Inc.
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Net income	\$ 1,878,535	\$ 1,489,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	562,084	561,242
Interest expense amortized from debt issuance costs	24,335	24,335
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	3,633	2,130
Prepaid expenses	(1,186,411)	(5,349)
Security deposits	18,535	(36,895)
Deferred legal fees	50,395	(11,553)
Increase (decrease) in:		
Accrued expenses	133,811	(40,251)
Maintenance charges paid in advance	120,799	3,204
Capital assessment paid in advance	164,171	-
Real estate tax abatements and exemptions payable	27,637	2,193
Tenants' security and other deposits payable	(18,535)	(2,605)
Total adjustments	(99,546)	496,451
Net cash provided by operating activities	1,778,989	1,986,189
Cash flows from investing activities		
Sale (purchase) of certificates of deposit	7,762	(1,908,398)
Acquisitions of building improvements	(1,731,687)	(496,877)
Net cash used by investing activities	(1,723,925)	(2,405,275)
Net increase (decrease) in cash	55,064	(419,086)
Cash - Beginning of year	3,401,281	3,820,367
Cash - End of year	\$ 3,456,345	\$ 3,401,281
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 658,419	\$ 660,223
Income and franchise taxes	\$ 84,609	\$ 104,012

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 1 – Nature of Organization

Cannon Point North, Inc. (the “Corporation”) was incorporated in the State of New York on July 2, 1958 to qualify as a cooperative housing corporation as defined in Section 216 of the Internal Revenue Code and corresponding provisions of the New York State tax law. The Corporation owns the land and building located at 25 Sutton Place South, New York, which consists of 320 residential apartments and a parking garage. The primary purpose of the Corporation is to manage the operations of the cooperative and maintain the common elements.

The Corporation qualifies as a cooperative housing corporation under Section 216 of the Internal Revenue Code in 2017 and 2016.

Note 2 – Summary of Significant Accounting Policies

Accounts Receivable

Tenant-shareholders’ accounts receivable are recorded at net realizable value consisting of the carrying amount. The Corporation’s policy is to charge late fees on all tenant-shareholders’ account balances that exceed 30 days. Late fees are recorded as earned. The Corporation considers all tenant-shareholders’ accounts receivable at December 31, 2017 and 2016 to be collectible. Accordingly, no allowance for doubtful accounts is required. If any accounts receivable become uncollectible, they will be charged to operations when that determination is made.

Prepaid and Deferred Expenses

Prepaid and deferred expenses are being amortized over various periods during which benefits are derived.

Real Property and Equipment

Real property and equipment are recorded at cost. Major additions and improvements are capitalized while replacements, maintenance and repairs which do not improve or extend the lives of the respective assets are expensed as incurred.

Depreciation of the building was provided on the straight-line method over an estimated useful life of 50 years and has been fully depreciated. The building improvements and lobby, gym and other improvements are being depreciated over estimated useful lives of 15 to 27 ½ years using the straight-line method. Equipment is being depreciated over estimated useful lives of 5 to 7 years using both the straight-line and accelerated methods.

Debt Issuance Costs

Debt issuance costs are amortized on a straight-line basis (which approximates the interest method) over the life of the related debt. Such costs amounted to \$367,122 as of December 31, 2017 and 2016, and related accumulated amortization (which was included in interest expense) amounted to \$259,638 and \$235,303 for the years ended December 31, 2017 and 2016, respectively. For the years ended December 31, 2017 and 2016, amortization expense (included in interest expense) amounted to \$24,335. The net debt issuance costs are reflected as a reduction of the Corporation’s debt.

Maintenance Charges

The major source of revenue is derived from maintenance charges on shareholder apartments. Maintenance charges are based on an annual budget determined by the Board of Directors. Tenant-shareholders are billed monthly based on their respective stock holdings. The Corporation retains excess operating funds, if any, at the end of the operating year, for use in subsequent operating periods.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

Transfer Fees

In accordance with the Corporation's proprietary lease, upon the transfer of capital stock, a fee of 2% of the sales price of such shares shall be payable to the Corporation by the purchaser. Transfer fees are recognized as revenue to the Corporation at the time of transfer. Transfer fees are deposited into the Reserve Fund to be used for capital expenditures.

Impairment of Long-Lived Assets

The Corporation evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. Impairment losses, if any, would be determined based on fair value, using the present value of the cash flows using discount rates that reflect inherent risk of the underlying business. No impairment was required to be recognized for the years ended December 31, 2017 and 2016.

Income Taxes

The Financial Accounting Standards Board issued guidance regarding how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. The guidance requires the evaluation of 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 of being sustained upon examination by the applicable tax authority, based on the technical merits of the tax position, and then recognizing the tax benefit that is more-likely-than-not to be realized. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current reporting period. Management has analyzed the tax positions taken by the Corporation, and has concluded that as of December 31, 2017, no uncertain positions are taken or are expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Use 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The significant estimates of the Corporation includes allowance for doubtful accounts or lack of, estimated lives on real property and equipment, and impairment measurements.

Fair Value of Financial Instruments

The Corporation's financial instruments include cash, accounts receivable, and mortgage payable. The recorded values of cash and accounts receivable approximates their fair values based on their short-term nature. The recorded value of the mortgage payable approximates its fair value, as the interest rate approximates the market rate.

Uninsured Cash Balances

The Corporation maintains cash balances at several banks in the New York metropolitan area. Cash accounts at banks are insured by the Federal Deposit Insurance Corporation subject to certain limits. At times, such cash balances may be in excess of the insured limits. The Corporation has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications

Certain items in the 2016 financial statements have been reclassified to conform to current year classifications. Such reclassifications had no effect on the previously reported net income.

Note 3 – Cash

Cash consists of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Operating		
Bank checking account:		
Citibank	\$ 1,035,473	\$ 933,279
Capital One Bank	<u>1,116</u>	<u>908</u>
Total Operating	<u>1,036,589</u>	<u>934,187</u>
Real Estate Tax Escrow		
Money market accounts:		
Citibank,		
currently yielding 0.80%	37,579	1,169,765
Morgan Stanley,		
yielded 0.01%	<u>-</u>	<u>(118)</u>
Total Real Estate Tax Escrow	<u>37,579</u>	<u>1,169,647</u>
Reserve Funds		
Money market account – mortgage reserve fund:		
Morgan Stanley,		
currently yielding 0.25%	<u>183,777</u>	<u>130,363</u>
Money market account – capital reserve fund:		
Morgan Stanley,		
currently yielding 0.25%	885,145	997,757
Sterling Bank,		
currently yielding 0.90%	346,729	169,327
Israel Discount Bank of New York,		
currently yielding 0.85%	241,827	-
Bank United,		
currently yielding 0.60%	241,293	-
Signature Bank,		
currently yielding 0.70%	241,501	-
Flushing Bank,		
currently yielding 0.85%	<u>241,905</u>	<u>-</u>
	<u>2,198,400</u>	<u>1,167,084</u>
Total Reserve Funds	<u>2,382,177</u>	<u>1,297,447</u>
Total Cash	<u>\$ 3,456,345</u>	<u>\$ 3,401,281</u>

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 4 – Reserve Funds

The following schedule summarizes the activity of the Reserve Funds for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash - Mortgage Reserve Fund – Beginning of year	\$ 130,363	\$ 1,020,946
Add: Interest income	41,414	25,537
Transfers from operating account – special assessment for mortgage reserve fund	<u>492,000</u>	<u>492,000</u>
	663,777	1,538,483
Less: Transfer to purchase certificates of deposit	(480,000)	(1,408,000)
Bank charges	<u>-</u>	<u>(120)</u>
Cash - Mortgage Reserve Fund – End of year	183,777	130,363
Certificates of deposit (Note 5)	<u>2,390,636</u>	<u>1,907,491</u>
Total Mortgage Reserve Fund – End of year	<u>2,574,413</u>	<u>2,037,854</u>
Capital Reserve Fund – Beginning of year	1,167,084	817,757
Add: Interest income	10,702	1,307
Transfer fees	135,200	294,600
Transfer for redemption of certificates of deposit	490,000	-
Special assessment for capital improvements	<u>1,640,000</u>	<u>984,000</u>
	3,442,986	2,097,664
Less: Transfers to operating account for capital improvements	(1,232,586)	(411,430)
Transfer for purchase of certificates of deposit	-	(490,000)
Net transfers to operating account	(12,000)	(29,000)
Bank charges	<u>-</u>	<u>(150)</u>
Cash - Capital Reserve Fund – End of year	2,198,400	1,167,084
Certificates of deposit (Note 5)	<u>-</u>	<u>490,907</u>
Total Capital Reserve Fund – End of year	<u>2,198,400</u>	<u>1,657,991</u>
Total Reserve Funds – End of year	<u>\$ 4,772,813</u>	<u>\$ 3,695,845</u>

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 5 – Certificates of Deposit – Mortgage and Capital Reserve Funds

Certificates of Deposit with original maturity dates in excess of three months, which are insured by the Federal Deposit Insurance Corporation, purchased during 2017 and 2016 consist of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Certificates of Deposit – Mortgage Reserve Fund		
Synchrony, yields 2.40%, matures 10/4/21	\$ 246,454	\$ 246,454
Goldman Sachs, yields 2.35%, matures 10/7/21	246,345	246,345
Sallie Mae, yields 2.15%, matures 1/20/21	247,347	247,347
Comenity Bank, yields 1.85%, matures 3/9/21	200,288	200,288
Capital One Bank, yields 1.55%, matures 4/20/21	245,751	245,751
Capital One Bank, yields 1.70%, matures 10/13/21	228,841	228,841
Toyota Financial Savings, yields 2.30%, matures 1/27/22	247,404	247,404
Lakeside Bank, yields 1.85%, matures 2/25/22	245,061	245,061
AMEX Centurion, yields 2.25%, matures 4/12/21	135,668	-
American Express, yields 2.10%, matures 9/20/21	221,315	-
Discover, yields 2.25%, matures 2/1/22	<u>126,162</u>	<u>-</u>
Certificates of Deposit – Mortgage Reserve Fund	<u>2,390,636</u>	<u>1,907,491</u>
Certificates of Deposit – Capital Reserve Fund		
Bank Hapoalim, yielded 0.70%, matured 3/23/17	-	245,465
Bank of China, yielded 0.70%, matured 3/28/17	<u>-</u>	<u>245,442</u>
Certificates of Deposit – Capital Reserve Fund	<u>-</u>	<u>490,907</u>
Total Certificates of Deposit	<u>\$ 2,390,636</u>	<u>\$ 2,398,398</u>

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 6 – Mortgage Payable and Line of Credit

Mortgage Payable

On May 24, 2012, the Corporation refinanced the mortgage for \$17,000,000 with National Cooperative Bank (“NCB”). In connection with the refinancing, the Corporation substituted the collateral of its former loan in a defeasance transaction which required the purchase of government securities. The Corporation incurred a defeasance premium in the amount of \$1,207,158. The terms of the mortgage are as follows:

Term:	10 years
Due date:	June 1, 2022
Interest rate:	3.82% per annum, payable monthly
Monthly payments:	Monthly payments of interest only
Prepayment:	Prepayments of principal are permitted by paying a prepayment premium as defined in the mortgage documents.

The mortgage is collateralized by the Corporation’s land and building.

Mortgage payable, net of unamortized debt issuance costs, consists of the following as of December 31:

	<u>2017</u>	<u>2016</u>
Mortgage payable, principal	\$17,000,000	\$17,000,000
Less: Unamortized debt issuance costs	<u>(107,484)</u>	<u>(131,819)</u>
Mortgage payable, net of debt issuance costs	<u>\$16,892,516</u>	<u>\$16,868,181</u>

See Note 14 – Mortgage Reserve Fund Assessment

Line of Credit

On May 24, 2012, the Corporation secured a \$2,000,000 line of credit with NCB. The terms of the line of credit are as follows:

Term:	10 years
Due date:	June 1, 2022, at which time any unpaid balance and accrued interest becomes due and payable
Interest rate:	3.75% above the current LIBOR, payable monthly, but not less than 5%
Monthly payments:	Monthly payments are applied first to interest then to principal

As of December 31, 2017 and 2016, the Corporation did not borrow against the line of credit.

The Corporation was also required to purchase 423 additional shares of Class B stock of National Cooperative Bank. During the years ended December 31, 2017 and 2016, the Corporation received cash patronage dividends of \$27,106 and \$11,752, respectively. As of December 31, 2017 and 2016, the Corporation owned 2,483 and 2,076 shares of Class B Stock of National Cooperative Bank, respectively.

Note 7 – Real Estate Taxes

During the year ended December 31, 2017, certiorari proceedings instituted by the Corporation for a reduction in assessed valuation of land and building for real estate tax purposes for the tax year 2017/18 were settled for a total tax benefit of \$147,362. Legal fees incurred in connection with this settlement amounted to \$15,865, which are included in deferred legal fees, and are payable through 2021.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 7 – Real Estate Taxes (continued)

During the year ended December 31, 2016, certiorari proceedings instituted by the Corporation for a reduction in assessed valuation of land and building for real estate tax purposes for the tax year 2016/17 were settled for a total tax benefit of \$712,650. Legal fees incurred in connection with this settlement amounted to \$77,813. During the years ended December 31, 2017 and 2016, \$15,563 was paid each year. The remaining balance of \$62,250, which is included in deferred legal fees, is payable through 2020.

During the year ended December 31, 2015, certiorari proceedings instituted by the Corporation for a reduction in assessed valuation of land and building for real estate tax purposes for the tax years 2014/15 and 2015/16 were settled for a total tax benefit of \$2,027,905, including a refund of \$146,580. Legal fees incurred in connection with this settlement amounted to \$253,488. During the years ended December 31, 2017 and 2016, \$50,697 was paid each year. The remaining balance of \$145,718, which is included in deferred legal fees, is payable through 2019.

Under the New York City Condominium and Cooperative Real Estate Tax Abatement Program, partial abatements of real estate taxes for eligible residential units held in the cooperative or condominium form of ownership in New York City became available. For cooperatives, the abatement is applied to the Corporation's real estate tax bills. The cooperative is responsible for passing on the abatement to eligible shareholders.

Abatements for fiscal 2017/18 in the amount of \$780,449 were credited to eligible shareholders through maintenance charge credits in the subsequent period. The portion attributable to the first half of fiscal 2017/18 in the amount of \$390,224 was recorded in Real Estate Tax Abatements and Exemptions Payable as of December 31, 2017. The remaining balance of \$36,351, which is due to tenant-shareholders, represents various abatements such as STAR and Veterans which will be reimbursed to eligible shareholders in the subsequent period.

Note 8 – Multiemployer Plan That Provides Pension Benefits

The Corporation contributes to a multiemployer defined benefit pension plan (the "plan") under the terms of the collective-bargaining agreement which was extended to June 8, 2018, and covers its union-represented employees. The risks of participating in a multiemployer plan are different from a single-employer plan in the following aspects:

1. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Corporation chooses to stop participating in its multiemployer plan, the Corporation may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Corporation's participation in this plan for the annual period ended December 31, 2017, is outlined in the summary below reflective of the following data:

EIN/Pension Plan Number: The "EIN/Pension Plan Number" provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable.

Certified zone information: The most recent Pension Protection Act (PPA) zone status available in 2017 and 2016 are for the plan's year-end at June 30, 2017 and June 30, 2016, respectively.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 8 – Multiemployer Plan That Provides Pension Benefits (continued)

The zone status is based on information that the Corporation received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.

FIP/RP status: "FIP/RP Status Pending/Implemented" indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

The number of employees covered by the Corporation's multiemployer plan was substantially the same from 2016 to 2017. The Corporation's contributions to such plan were \$147,956 and \$145,083 for the years ended December 31, 2017 and 2016, respectively.

The pension plan requires the Corporation to contribute to the plan a fixed contracted amount per hour worked by each employee covered by the collective-bargaining agreement. The information as to the Corporation's portion of accumulated plan benefits and plan assets is not determinable. The Corporation could be assessed a withdrawal liability in the event that it decides to cease participating in the plans. The estimated liability upon withdrawal is currently not available.

The Corporation's total contributions to the plan did not exceed more than 5% of the total contributions for the plan's years ended June 30, 2017 and 2016.

The plan's actuary has certified that the plan is in critical status for the years beginning July 1, 2017 and 2016.

A summary of the pension fund is as follows:

Legal Name of Pension Plan:	Building Service 32BJ Pension Fund
Employer Identification Number (EIN):	13-1879376
Plan Number:	001
Type of Plan:	Defined Benefit Pension Plan
Most Current Annual Report for Plan Year End Date:	June 30, 2017 (Will be filed by 4/15/18)
Zone Status:	July 1, 2017 – Red July 1, 2016 – Red
Has the Rehabilitation Plan been Implemented?	Yes
Surcharge paid to the Plan?	None

Note 9 – Income and Franchise Taxes

At December 31, 2017, for federal income tax purposes, the Corporation has net operating loss carryforwards of approximately \$17,247,000 which may be applied against future taxable income and that expire in various years 2018 through 2037. Because the future utilization of these net operating loss carryforwards is uncertain, no related deferred tax asset account has been reflected in accompanying financial statements. New York State Franchise and New York City Corporation taxes are calculated by utilizing special tax rates available to cooperative housing corporations, based upon the capital of the Corporation.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 9 – Income and Franchise Taxes (continued)

The provisions for income and franchise taxes for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Federal tax	\$ 7,300	\$ 10,658
New York State Franchise tax	57,805	51,200
New York City General Corporation tax	<u>49,322</u>	<u>17,317</u>
Total	<u>\$ 114,427</u>	<u>\$ 79,175</u>

Note 10 – Commitments

The Corporation has entered into an agreement with a contractor for a project to be performed. The following is a summary of the project:

Façade Repairs

Contract amount:	\$9,068,570 (including change orders)
Contract date:	October 14, 2016
Contractor:	DNA Contracting and Waterproofing LLC
Amount paid in 2016:	\$-0-
Other related costs incurred in 2016:	\$223,984
Amount paid in 2017:	\$1,433,629
Other related costs incurred in 2017:	\$298,058
Project status as of December 31, 2017:	In progress
Expected completion date:	December 31, 2020

The Corporation was obligated under the terms of a management agreement with Brown Harris Stevens Residential Management, LLC. The agreement was for one year and was automatically renewable unless cancelled by either party upon thirty days prior written notice. The management fee was \$130,000 per year, payable monthly. In addition, the management company received certain administrative fees. Effective January 1, 2015, the management agreement was on a month-to-month basis with the same terms. The contract was terminated on June 30, 2016.

Effective July 1, 2016, the Corporation became obligated under the terms of a management agreement with Douglas Elliman Property Management. The agreement is for two years and is automatically renewable unless cancelled by either party upon thirty days prior written notice. The management fee is \$185,000 per year, payable monthly. In addition, the management company receives certain administrative fees.

Note 11 – Future Major Repairs and Replacements

The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Corporation has not presented a study to determine the remaining useful lives of the components of the building and current estimates of costs of major repairs and replacements that may be required in the future. When funds for these projects are required, the Corporation has the right to borrow, including using lines of credit, utilize the reserve fund, increase maintenance charges, levy a special assessment, or delay the repairs or replacement until funds are available. The effect on future assessments has not been determined.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 12 – Garage Rent

Effective January 1, 2010, the garage lease was extended for ten years to December 31, 2019. Annual base rents to be received by the Corporation are as follows: \$463,613 per year for the first five years and \$479,613 per year for the remaining five years.

In order to perform certain structural repairs and replacements to the garage, on May 12, 2014, the Corporation and garage tenant entered into an agreement to temporarily close the garage for three months, suspend rent during this period, and extend the lease for three months through March 31, 2020 at the annual rate of \$463,613.

The lease agreement also provides for additional rent based upon increases in real estate taxes. The garage tenant issued a \$148,205 letter of credit in favor of the Corporation, as a security deposit on the lease.

Note 13 – Laundry Income

Effective September 5, 2013, the Corporation became obligated, under the terms of its agreement with Hercules Corp., for the rental of the building's laundry facility for a period of six years. Under the terms of the agreement, Hercules Corp. is responsible for the maintenance of the laundry machines. Pursuant to the agreement, the Corporation receives \$3,700 per month for the first through third year of the contract and \$3,800 per month for the fourth through sixth years of the contract. The agreement expires on August 31, 2019.

Note 14 – Special Assessments

Real Estate Tax Abatements

The Board of Directors approved special assessments in amounts approximating the New York City Condominium and Cooperative Real Estate Tax Abatements. For the years ended December 31, 2017 and 2016, the special assessments amounted to \$5.86 per share (\$960,613 aggregate amount) and \$5.58 per share (\$915,645 aggregate amount), and were billed in June 2017 and September 2016, respectively.

Capital Improvements

Effective January 1, 2013, the Board of Directors approved a special assessment to fund capital improvements. The special assessment amounted to \$4.00 per share per annum, for a period of one year.

Effective January 1, 2014 and 2015, the Board of Directors extended the capital improvements special assessment in the amount of \$4.00 per share per annum, payable monthly, for a period of one year.

Effective January 1, 2016, the Board of Directors extended the capital improvements special assessment in the amount of \$6.00 per share per annum, payable monthly, for a period of one year.

Effective January 1, 2017, the Board of Directors extended the capital improvements special assessment in the amount of \$10.00 per share per annum, payable monthly, for a period of one year.

For the years ended December 31, 2017 and 2016, the special assessment amounted to \$1,640,000 and \$984,000, respectively.

Cannon Point North, Inc.
Notes to the Financial Statements
December 31, 2017

Note 14 – Special Assessments (continued)

Mortgage Reserve Fund Assessment

Effective January 1, 2013, the Board of Directors approved a special assessment to fund the mortgage reserve account. The purpose of the mortgage reserve fund assessment is to provide funds to reduce the outstanding mortgage balance when it matures in 2022. During 2012, the mortgage was refinanced in connection with the settlement of the FDR Drive litigation with the City of New York. The mortgage was increased from \$7,900,000 to \$17,000,000. The special assessment amounted to \$3.00 per share per annum, for a period of one year.

Effective January 1, 2014 and 2015, the Board of Directors extended the mortgage reserve fund special assessment for an additional period of one year.

Effective January 1, 2016 and 2017, the Board of Directors also extended the mortgage reserve fund special assessment in the amount of \$3.00 per share per annum, payable monthly, for a period of one year.

For the years ended December 31, 2017 and 2016, the special assessment amounted to \$492,000.

Effective January 1, 2018, the mortgage reserve fund special assessment was suspended.

Note 15 – Litigation

In November 2015, the Corporation became a defendant in litigation initiated by a tenant-shareholder in connection with damages purportedly sustained to the plaintiff's apartment. The case is being defended by the Corporation's insurance company. In addition, the insurance company is seeking reimbursement for certain claims incurred. Attorneys representing the Corporation have responded to the legal proceedings which are presently in the discovery stage. A court mandated mediation process has begun in order to attempt to resolve these matters. At the present time, the outcome of this litigation cannot be determined.

During 2016, the Corporation became a defendant in a personal injury lawsuit initiated by a third party. The Corporation was being defended by the Corporation's insurance company. The case was settled during 2017 at no cost to the Corporation.

Note 16 – Subsequent Events

The Corporation has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through March 8, 2018, the date the financial statements were available to be issued.

Maintenance Charges

Effective January 1, 2018, the Board of Directors approved a 2.68% maintenance increase. The maintenance per share increased \$1.50 from \$55.99 to \$57.49 per annum.

Special Assessments

Effective January 1, 2018, the Board of Directors extended the capital improvements special assessment in the amount of \$15.50 per share per annum, payable monthly, for a period of three years. The shareholders have the option to make a lump sum payment by March 31, 2018 at a per share amount of \$42.00. As of December 31, 2017, \$164,171 was collected.

Supplementary Information

Independent Auditor's Report on Supplementary Information

To the Board of Directors and Shareholders of Cannon Point North, Inc.

We have audited the financial statements of Cannon Point North, Inc. as of and for the years ended December 31, 2017 and 2016 and our report thereon dated March 8, 2018, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting schedule appearing on page 20 is presented for purposes of additional analysis and is 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 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.

Gettry Marcus CPA, P.C.

Gettry Marcus CPA, P.C.
Woodbury, New York
March 8, 2018

Cannon Point North, Inc.
Schedule of Building Improvements, Equipment and Lobby,
Gym and Other Property
December 31, 2017

<u>Year of Addition</u>	<u>Building Improvements</u>	<u>Equipment</u>	<u>Lobby, Gym And Other</u>	<u>Total</u>
1969	\$ 13,559	\$ -	\$ -	\$ 13,559
1970	1,490	-	-	1,490
1971	8,030	-	-	8,030
1972	2,517	-	-	2,517
1974	10,225	-	-	10,225
1976	213,666	-	-	213,666
1977	47,976	-	-	47,976
1978	185,877	-	-	185,877
1979	101,304	-	-	101,304
1980	47,842	-	-	47,842
1981	107,452	-	-	107,452
1982	44,265	-	-	44,265
1983	165,750	-	-	165,750
1984	64,400	-	-	64,400
1986	136,420	-	-	136,420
1987	62,041	-	-	62,041
1988	44,599	-	-	44,599
1989	-	26,498	-	26,498
1990	78,077	23,910	539,389	641,376
1991	104,318	78,306	234,339	416,963
1992	48,110	52,562	-	100,672
1993	609,817	40,291	-	650,108
1994	500,444	-	14,756	515,200
1995	207,649	46,903	-	254,552
1996	30,530	-	-	30,530
1997	42,898	137,152	-	180,050
1998	520,003	2,024	45,666	567,693
1999	1,219,571	4,479	-	1,224,050
2000	244,486	34,781	74,035	353,302
2001	15,265	67,972	-	83,237
2002	253,508	91,481	170,038	515,027
2003	787,711	-	24,638	812,349
2004	559,723	-	50,850	610,573
2005	39,475	-	9,920	49,395
2006	679,334	13,192	10,574	703,100
2007	1,644,996	4,704	5,443	1,655,143
2008	271,009	39,678	2,893	313,580
2009	361,405	-	5,433	366,838
2010	46,662	28,798	-	75,460
2011	663,875	11,383	-	675,258
2012	1,650,585	-	82,552	1,733,137
2013	2,174,117	9,756	4,265	2,188,138
2014	1,758,115	9,254	-	1,767,369
2015	135,886	9,254	-	145,140
2016	479,525	-	17,352	496,877
2017	1,731,687	-	-	1,731,687
	<u>\$ 18,116,194</u>	<u>\$ 732,378</u>	<u>\$ 1,292,143</u>	<u>\$ 20,140,715</u>