CANNON HEIGHTS, INC.

FINANCIAL STATEMENTS

and

SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2023 and 2022

CANNON HEIGHTS, INC.

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Independent Auditor's Report

To: The Board of Directors and Shareholders of Cannon Heights, Inc.

Opinion

We have audited the financial statements of Cannon Heights, Inc., which comprise the balance sheets as of June 30, 2023 and 2022, and the related statements of operations, accumulated deficit and cash flows for the 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 Cannon Heights, Inc. as of June 30, 2023 and 2022, and the results of its operations and its cash flows for the years then ended 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. 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 Cannon Heights, Inc. 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.

Substantial Doubt About the Corporation's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Corporation will continue as a going concern. As discussed in Note 5 to the financial statements, the Corporation has suffered recurring operating losses, substantial uncollectable arrears, inability to pay the monthly loan payments on the senior and subordinate loans and a working capital deficiency, and substantial doubt exists about the Corporation's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 5. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the 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 Cannon Heights, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be 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 generally accepted auditing standards 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.

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In performing an audit in accordance with generally accepted auditing standards 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 Cannon Heights, Inc.'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, which raise substantial doubt about Cannon Heights, Inc.'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.

Omission of Required Supplementary Information

Management has omitted the information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by the missing information.

October 17, 2024

Marin & Montanye LLP

CANNON HEIGHTS, INC. EXHIBIT A

BALANCE SHEETS

As of June 30, 2023 and 2022

ASSETS

	2023	2022
CURRENT ASSETS		
Cash and cash equivalents:		
Operating account	$ 28,800	$ -
Equity account	105,172	-
	133,972	-
Receivables:		
Shareholders' arrears	309,155	199,580
Less: Allowance for doubtful accounts – (Note 3)	(86,641)	(81,327)
Commercial arrears	19,054	3,875
Section 8 subsidy	19,604	9,879
Replacement Reserve Fund – Schedule 2	138,874	468,906
Amortization, assessment and equity receivable	-	16,685
Escrow Fund – Schedule 1	98,975	613,120
Prepaid expenses – insurance	40,541	11,746
– real estate taxes	-	24,679
TOTAL CURRENT ASSETS	673,534	1,267,143
PROPERTY AND EQUIPMENT		
Land	75,438	75,438
Building	4,165,359	4,165,359
Building improvements	7,630,343	7,608,043
Equipment	100,893	100,893
Less: Accumulated depreciation	(5,839,469)	(5,670,052)
NET PROPERTY AND EQUIPMENT	6,132,564	6,279,681
OTHER ASSET		
Commercial lease income – FASB – 842 adjustment – (Note 2)	6,011	-
TOTAL ASSETS	$ 6,812,109	$ 7,546,824

See Notes to Financial Statements.

CANNON HEIGHTS, INC. EXHIBIT A

BALANCE SHEETS

As of June 30, 2023 and 2022

LIABILITIES AND STOCKHOLDERS' EQUITY

	2023	2022
CURRENT LIABILITIES		
Cash overdrafts	$ -	$ 36,610
Accounts payable and accrued expenses	1,040,876	1,272,470
Interest accrued on mortgage payable	107,410	12,086
Interest accrued on loan payable	4,728	539
Interest accrued on 8A loan payable	3,008	3,008
Shareholders' prepaid maintenance	9,591	8,291
Applicants' deposits payable	36,844	35,244
Amortization, assessment and equity payable	107,459	-
Abatements and exemptions payable	53,359	45,201
Mortgage payable – current portion	74,065	42,560
Loan payable – current portion	41,340	24,639
TOTAL CURRENT LIABILITIES	1,478,680	1,480,648
LONG TERM AND OTHER LIABILITIES		
Mortgage payable – senior – (Note 6)	2,234,610	2,248,493
Less: Current portion	(74,065)	(42,560)
Unamortized debt issuance costs – (Note 2)	(36,742)	(41,641)
Loan payable – subordinate – (Note 6)	638,658	646,844
Less: Current portion	(41,340)	(24,639)
8A loan payable – subordinate – (Note 6)	1,804,818	1,804,818
Less: Unamortized debt issuance costs – (Note 2)	(25,660)	(26,686)
8A evaporating loan – deferred grant income – (Note 6)	500,000	500,000
Security deposits payable	2,000	2,000
TOTAL LONG TERM AND OTHER LIABILITIES	5,002,279	5,066,629
TOTAL LIABILITIES	6,480,959	6,547,277
STOCKHOLDERS' EQUITY		
Capital Stock – Common – original issued (Authorized and Outstanding 24,212 shares at par value $25)	605,300	605,300
Additional Paid-in Capital	2,123,158	1,891,568
Accumulated Deficit	(2,397,308)	(1,497,321)
TOTAL STOCKHOLDERS' EQUITY	331,150	999,547
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,812,109	$ 7,546,824

See Notes to Financial Statements.

CANNON HEIGHTS, INC. EXHIBIT B

STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT

For The Years Ended June 30, 2023 and 2022

		2023	2022
INCOME			
Rent Income			
Apartments		$ 2,047,519	$ 1,863,987
Less: Vacancy loss		(52,736)	(62,390)
Parking		35,417	34,450
Surcharge retention		88,205	79,284
Total Rent Income		2,118,405	1,915,331
Interest Income			
Interest on Reserve Fund investments		11,358	9,371
Total Interest Income		11,358	9,371
Other Income			
Laundry		20,400	18,700
Air conditioners, dishwashers and freezers		24,452	24,830
Late charges, storage bins and miscellaneous		9,915	15,965
Commercial lease income – Antenna – (Note 8)		23,761	23,256
Commercial lease income – FASB – 842 adjustment – (Notes 2 and 8)		6,011	-
Community room		3,575	2,600
Recovery of bad debt		-	44,638
Total Other Income		88,114	129,989
TOTAL INCOME		2,217,877	2,054,691
COST OF OPERATIONS			
Administrative and management expenses	Schedule 3	242,711	151,124
Operating expenses	Schedule 4	1,063,644	950,215
Repairs and maintenance expenses	Schedule 5	241,143	447,051
Taxes, insurance and employee benefits	Schedule 6	1,172,242	524,420
Financial expenses	Schedule 7	228,707	203,366
TOTAL COST OF OPERATIONS		2,948,447	2,276,176
LOSS FROM OPERATIONS BEFORE DEPRECIATION AND PPP LOAN INTEREST AND FORGIVENESS		(730,570)	(221,485)
Depreciation	Schedule 8	(169,417)	(169,063)
PPP loan forgiveness – (Note 6)		-	68,477
Accrued interest related to PPP loan – (Note 6)		-	(560)
NET LOSS		(899,987)	(322,631)
Beginning Accumulated Deficit		(1,497,321)	(1,174,690)
Ending Accumulated Deficit		$ (2,397,308)	$ (1,497,321)

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

EXHIBIT C

For The Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (899,987)	$ (322,631)
Adjustments to reconcile net loss to cash provided (used) by operating activities:		
Depreciation expense	169,417	169,063
Mortgage interest expense related to amortization of debt issuance costs	5,925	5,925
Increase in receivables	(117,794)	(19,215)
Increase (Decrease) in allowance for doubtful accounts	5,314	(44,638)
Increase (Decrease) in escrow fund	514,145	(66,819)
Increase in prepaid expenses	(4,116)	(3,298)
Increase (Decrease) in accounts payable and accrued expenses	(46,195)	411,390
Increase in deposits payable	1,600	1,150
Increase (Decrease) in prepaid maintenance	1,300	(4,501)
Decrease in prepaid commercial income	-	(1,900)
FASB – 842 Adjustment	(6,011)	-
Interest related to PPP loan forgiveness	-	560
PPP loan forgiveness	-	(68,477)
Interest income – investments	(5,718)	(1,586)
Total Adjustments	517,867	377,654
CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(382,120)	55,023
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(29,179)	(12,000)
(Increase) Decrease in Reserve Fund – transfers – (net)	335,750	(42,750)
CASH PROVIDED (USED) BY INVESTING ACTIVITIES	306,571	(54,750)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Additional Paid - in Capital	231,590	-
Payment of mortgage – senior	(13,883)	(39,909)
Payment of mortgage – subordinate	(8,186)	(24,394)
CASH PROVIDED (USED) BY FINANCING ACTIVITIES	209,521	(64,303)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	133,972	(64,030)
Cash and cash equivalents at beginning of year	-	64,030
Cash and cash equivalents at end of year	$ 133,972	$ -

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

EXHIBIT D

	2023	2022
Cash paid during the year:		
Interest	$ 69,481	$ 171,083

Non-Cash Investing and Financing Activities:
Additions to property and equipment accrued were $338,912 and $345,791 for the years ended June 30, 2023 and 2022, respectively.

See Notes to Financial Statements.

Note 1. ORGANIZATION

Cannon Heights, Inc. (the “Corporation”), a limited-profit housing company pursuant to the laws of the State of New York under provisions of the Limited-Profit Housing Companies Law Article XII of the Public Housing Law, was formed as a cooperative corporation in 1963. The Corporation owns one building in Bronx, New York: 3400 Fort Independence Street. There are a total of 171 residential units. The primary purpose of the Corporation is to manage the operations of Cannon Heights, Inc. and to maintain the common elements.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents
For the purpose of the statements of cash flows, the Corporation considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Depreciation
Property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. As of the balance sheet date, the building has been fully depreciated.

Amortization of Debt Issuance Costs
Costs incurred in obtaining long-term financing, included under mortgage and loan payable on the balance sheets, are amortized on a straight-line basis, which approximates the effective interest method, over the term of the related debt agreement, as applicable.

Revenue Recognition
Tenant-shareholders are subject to monthly maintenance charges to provide funds for the Corporation’s operating expenses, future capital acquisitions, and repairs and replacements. An operating assessment is recognized as income when the related performance obligation (the purpose of the assessment) is satisfied. The performance obligations, relating to capital assessments, are satisfied and recorded as income when these funds are expended for their designated purpose. In accordance with FASB ASC 606, a capital assessment that is not expended in the current year will be deferred to subsequent years and will only be recognized as income when the performance obligation is satisfied. In March of 2023, HPD approved a maintenance charge increase for the Corporation. The increase in maintenance charges was 44% effective April 1, 2023. This increase follows previous increases of 12% effective March 1, 2022 and 6% March 1, 2023. A third scheduled increase of 5% was to be effective March 1, 2024, but was cancelled after the 44% increase was approved.

Shareholder Maintenance – Accounts Receivable
Tenant-shareholder receivables at the balance sheet date represent maintenance fees due from tenant-shareholders. The Corporation’s policy is to retain legal counsel and place liens on the shares of stock of tenant-shareholders whose maintenance charges are delinquent. The Corporation has established an allowance for doubtful accounts in the amount of $86,641, representing tenant-shareholder receivables that as of June 30, 2023, have been determined to be uncollectible. Any excess maintenance charges at year end are retained by the Corporation for use in future years.

Adoption of FASB ASC 842
Effective July 1, 2022, the Corporation adopted FASB ASC 842, Leases. The Corporation determines if an arrangement contains a lease at inception based on whether the Corporation has the right to control the asset during the contract period and other facts and circumstances. The Corporation elected to adopt the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed it to carry forward the historical lease classification.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

Adoption of FASB ASC 842 – (continued)
Under ASC 840, the original lease accounting standard, the Corporation was allowed to disclose their operating leases in the footnotes to financial statements. Under the new standard ASC 842, all leases that are longer than 12 months must be recorded on the balance sheets.

Lease term is defined as the non-cancelable period of the lease plus any options to extend or terminate the lease when it is reasonably certain that the lessee will exercise the option.

The Corporation elected to adopt the package of practical expedients permitted under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

Note 3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

An allowance for doubtful accounts was recorded representing past tenant arrears in the amount of $86,641. The allowance has been established to show the receivables at their net realizable value.

Note 4. STATEMENTS OF CASH FLOWS

The following tables provide a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that adds to the total of the same amounts as shown on the statements of cash flows as of June 30, 2023 and 2022.

	2023	2022
Cash – Operating Account	$ 28,800	$ -0-
Cash – Equity Account	105,172	-0-
Total cash and cash equivalents as shown on the statements of cash flows	$ 133,972	$ -0-

Note 5. CONTINGENCY – GOING CONCERN

As shown in financial statements, the Corporation incurred a net loss of $730,570 during the year ended June 30, 2023. As of that date, the Corporation's current liabilities exceeded its current assets by $805,146. These factors create a substantial doubt about the Corporation's ability to continue as a going concern for the year following the date the financial statements are available to be issued. Management of the Corporation has evaluated these conditions and has proposed a plan to reduce its liabilities through maintenance charges to the shareholders and obtaining additional financing to lower its accounts payable and complete needed capital projects, as discussed in Note 6, and aggressively pursuing the collection of outstanding arrears. The ability of the Corporation to continue as a going concern and meet its obligations as they become due is dependent on the shareholders' ability to pay their proportionate share of maintenance charge increases. The financial statements do not include any adjustments that might be necessary if the Corporation is unable to continue as a going concern.

Note 6. MORTGAGE AND LOAN PAYABLES

On October 14, 2010, the Corporation refinanced its mortgage loan with NYC Housing Development Corporation ("HDC") in the amount of $3,500,000. The "senior loan" of $2,585,000 was used to pay off the then existing three loans with Amalgamated Bank and Wells Fargo Bank and to pay closing costs and deposits to Escrow for Real Estate Taxes, Water and Sewer and Insurance. This is a self-amortizing 35-year loan with a fixed interest rate of 6.45%. The monthly payment on this loan is $15,529. The maturity date of the mortgage is November 1, 2045.

Subordinate Loan Payable
Also held by NYC HDC is the subordinate loan in the amount of $915,000. The loan is to be used for capital improvements approved by HDC and HPD. This is also a self-amortizing loan over a 35-year term at a fixed interest rate of 1% and was held in an interest bearing account by HDC until drawn upon. The monthly payment on this loan is $2,583 and it matures on the same date as the senior loan.

The loans are collateralized by the land and building owned by the Corporation.

Principal maturities of the loans over the next five years and thereafter are as follows:

Year Ending June 30:	Senior	Subordinate	Aggregate
2024	$ 74,065	$ 41,340	$ 115,405
2025	48,404	25,137	73,541
2026	51,620	25,389	77,009
2027	55,049	25,644	80,693
2028	58,707	25,902	84,609
Thereafter	1,946,765	495,246	2,442,011

Interest expense for the senior and subordinate loans was $154,789 and $157,700 for the years ended June 30, 2023 and 2022, respectively, which includes amortized debt issuance costs of $4,899 for each of the years.

During the fiscal year ended June 30, 2023, the Corporation began having cash flow problems and has been unable to make the required mortgage payments. No payments have been made on the mortgage since October 2022.

Subsequent to year end, in June 2024, the Corporation closed on two new loans with NYC HDC. The first loan is an NYC HDC Mortgage Grant Loan in the amount of $20,311,029. The second loan is a NYC HDC Co-Equal Fifth Loan Mortgage, in the amount of $1,795,000. Both loans require no payments during the loan term, but accrue interest compounding at a rate of 1% on the outstanding principal amounts from the date of closing until the maturity date, June 30, 2054, at which time the principal and accrued interest will be due and payable. The funds will be used to pay off the Corporation's outstanding bills, unpaid debt service as well as to fund various improvement projects in the building.

8A Loan Payable
On June 30, 2017, the City of New York granted an 8A Loan of $2,275,280 to the Corporation. These funds are to be used for the buildings Heating Plant upgrade project and elevator modernization project. The terms of the loan include monthly payments of interest only at a rate of 1% per annum commencing on the first day of the first month following the initial advance, and continuing until the full amount of the loan has been fully drawn down. At which time payments of $7,535 will commence being applied first to interest at 1% with the remainder being applied to principal. This 8A loan was not drawn upon until June 2018. Monthly payments of interest commenced in August 2018. Total funds drawn as of June 30, 2023 was $1,804,818.

Note 6. MORTGAGE AND LOAN PAYABLES – (continued)

8A Loan Payable – (continued)
Interest expense was $19,073 for each of the years ended June 30, 2023 and 2022, which includes amortized debt issuance costs of $1,026 for each of the years.

8A Evaporating Loan
On June 30, 2017, the Corporation was granted an 8A loan. The loan, in the amount of $500,000, was used for the building Heating Plant upgrade project and the elevator modernization project. The proceeds from the loan were escrowed with the Department of Housing Preservation and Development (HPD) as the supervising agency for the Corporation. Under HPD procedures, such a loan was treated as an evaporating loan and was processed by HPD in their Article VIII-A Loan department, but no interest will be charged on the monies to maturity. Upon maturity of the loan on July 1, 2047, if the Corporation has honored its commitments described below, all of the principal of the $500,000 loan will evaporate and the Corporation will have no obligation to repay the $500,000.

The terms of the loan are as follows:

Interest:	None
Payments:	None
Term of loan:	30 years, maturity July 1, 2047.
Maturity:	Original amount $500,000 will be forgiven.
Terms regarding forgiveness:	Real estate taxes remain current and paid, including In-Rem agreements. Water and sewer charges remain current and paid. Existing mortgages and loans remain current and paid. Cannon Heights, Inc. remains within the Mitchell Lama Program until maturity. The funds were used to pay for capital improvement projects.
Income recognition:	The proceeds from the loan were escrowed by HPD and as applications were sent for payment regarding approved Heating Plant upgrade work, the funds were released to the contractor performing the work. The capital improvement projects will be capitalized and depreciated over 27.5 years, once the project is completed. The funds will be recognized over a period of 27.5 years or approximately $18,182 per year. As of June 30, 2023, the balance of the deferred grant income was $500,000.

PPP Loan Payable
In May 2021, the Corporation applied for and received a loan under the U.S. Small Business Administration (SBA) Paycheck Protection Program (PPP). The loan is in the amount of $67,917 and can be used solely to pay for Payroll Costs, Mortgage payments, Utility costs and Interest on any other debt obligations. The loan has an interest rate of 1%, however, the Corporation can apply for forgiveness within 10 months following the end of the Loan Forgiveness Covered Period, defined as being between the disbursement date and ending on any day that the borrower selects and that occurs during the period beginning 8 weeks after the disbursement date and 24 weeks after the disbursement date. In March 2022, the Corporation applied for and was granted forgiveness in the amount of $68,477 which included accrued interest of $560.

Note 7. CAPITAL ASSESSMENT

Effective April 1, 2023, due to an extraordinary increase in its insurance premiums, the Corporation received authorization to increase maintenance fees by 44%. Subsequently, the shareholders approved a motion to convert the maintenance increase into an equity assessment. The amount of the assessment paid will be added to shareholder equity for each apartment. The assessment is for 30 months and will be used to enable the Corporation to meet its authorized expenditures. Proceeds from the assessment are included as a component of Additional Paid - in Capital and totaled $231,590 for the year ending June 30, 2023.

Note 8. COMMERICAL LEASE

The Corporation has an operating lease, which generates rental income from a tenant and operating cash flows for the Corporation. The tenant's lease has an initial lease term of five years, with four additional five year options available upon expiration of the initial lease term. Contractual rent increases for the renewal options are often fixed at the time of the initial lease agreement which may result in tenants being able to exercise their renewal options at amounts that are less than the fair value of the rent at the date of renewal.

Commercial leases are classified as operating leases in accordance with the provision of Financial Accounting Standards Board ("FASB") ASC 842 which requires the recognition of scheduled rent increases and deferred rent concessions, if any on a straight-line basis over the lease term.

The Corporation has entered into an agreement with Starry, Inc. to lease rooftop space for a telecommunications antenna. The initial term of the agreement is for five years commencing on the Commencement date. The agreement will automatically renew under the same terms and conditions for 4 additional terms of 5 years each unless either party gives written notice to the other party of its election to terminate the agreement at least 90 days prior to the expiration of the initial term or prior renewal term. The terms of the lease require rental payments of $1,900 per month to be increased each subsequent year by 2% of the then current rental amount. Commercial lease income for the years ended June 30, 2023 and 2022, totaled $29,772 and $23,256, respectively.

The Corporation's operating lease is disclosed in the aggregate due to its consistent nature as a commercial lease. As of June 30, 2023, the undiscounted cash flows to be received from lease payments on the operating lease on an annual basis for the next five years and thereafter are as follows:

Year Ending June 30:		
2024	$	24,196
2025		24,679
2026		25,173
2027		25,677
2028		26,234
Thereafter		532,374

Note 9. CONTRACTUAL OBLIGATIONS

In July 2017, the Corporation entered into a contract with Duel Fuel Corp. for the upgrade of the Heating Plant at the cost of $2,127,280 including change orders. This contract will be paid from the 8A loan and the 8A Evaporating loan (Note 6). As of June 30, 2023, the amount of $1,802,618 has been paid towards this contract, with $324,662 accrued at year end.

Note 9. CONTRACTUAL OBLIGATIONS – (continued)

The Corporation entered into a contract with P.S. Marcato Co., Inc. for elevator modernization in the amount of $501,200, which will be paid from the 8A loan (Note 6). As of June 30, 2021, the project has been completed and the contract has been paid in full.

Note 10. TAX ABATEMENTS

The Corporation has been granted an 80% abatement on the assessed value of the corporate property, and a corresponding 80% abatement of real estate taxes due, providing such abatement shall not result in a tax of less than 10% of annual shelter rent.

Note 11. UNION BENEFITS

Substantially all of the Corporation's employees are members of the Service Employees International Union ("SEIU") Local 32BJ North and covered by a union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plan (the "Plan"). The union agreement expires on March 14, 2027. The Corporation makes contributions to the Plan based on the number of weeks worked by each employee covered under the union contract. During the years ended June 30, 2023 and 2022, the Corporation contributed $87,642 and $108,261, respectively, to the Plan of which $18,128 and $22,146, respectively, was for pension expense. The Corporation's contributions to the Plan were less than 5% of the Plan's total contributions.

Contributions to the Building Service 32BJ North Pension Fund, Employer Identification Number 13-1819138, (Plan 001) (the "Fund") are not segregated or otherwise restricted to provide benefits only to the Corporation's employees. The risk of participating in a multiemployer pension plan is different from a single-employer pension plan in the following aspects: 1) assets contributed to a multiemployer pension 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, and 3) if the Corporation chooses to stop participating in its multiemployer pension plan, the Corporation may be required to pay the plan an amount based on the underfunded status of the plan, which is referred to as a withdrawal liability.

In accordance with the Pension Protection Act of 2006, the Fund receives an annual certified zone status from its actuary, which summarizes its funding status. Plans in the "red zone" are generally less than 65% funded, plans in the "yellow zone" are 65% to 80% funded, and plans in the "green zone" are at least 80% funded. As of the date of issuance of these financial statements, the Fund's most recently available certified zone status was "green" for the 2022 Plan Year. The Fund is considered to be in the green zone for the plan year beginning January 1, 2023 and ended December 31, 2023. The Corporation has no intention of withdrawing from the Plan.

Note 12. INCOME TAXES

Under the Tax Cuts and Jobs Act tax passed into law on December 22, 2017, the carryforwards of net operating losses ("NOL") generated for tax years beginning after December 31, 2017, no longer expire. However, these losses can only be used to offset 80% of taxable income in any one year. Losses incurred prior to years beginning January 1, 2018, can continue to be used to offset 100% of taxable income.

Note 12. INCOME TAXES – (continued)

As of June 30, 2023, the Corporation had a total NOL of $2,706,706. The NOL of $1,587,124 will expire in various years through 2037. The remaining NOL of $1,119,582 generated from taxable losses occurring after June 30, 2018 does not expire under present tax law. It is believed that the Corporation will not benefit from any deferred tax benefits resulting from prior net operating losses, therefore no deferred tax assets have been recognized.

For the year ended June 30, 2023, the Corporation has a net loss and is not liable for income taxes. The Corporation is a limited housing company and is exempt from New York State and City taxes. Current tax expense is $-0-.

The Corporation's Federal tax return is subject to examination by the applicable taxing authority for a period of three years after filing the return.

Note 13. FUTURE MAJOR REPAIRS

The Corporation has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation may have the right to borrow, utilize available cash, increase maintenance charges, pass special assessments or delay repairs and replacements until the funds are available. The effect on future assessments has not been determined at this time.

Accumulated funds, which aggregate approximately $138,874 as of June 30, 2023 are generally not available for operating purposes. Any releases from these reserves must be approved by the New York City Housing Development Corp.

Note 14. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 17, 2024, the date at which the financial statements became available for issuance. No events have occurred that would require adjustments to, or disclosure in, the financial statements, except as disclosed in Note 6.

Marin &
Montanye LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountant's Report
On Supplementary and Prospective Information

To: The Board of Directors and Shareholders of Cannon Heights, Inc.

We have audited the financial statements of Cannon Heights, Inc. as of and for the years ended June 30, 2023 and 2022, and our report thereon dated October 17, 2024, which expressed an unmodified opinion on those financial statements, appears on Pages 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 Comparative Schedule of Income and Expenditures – Budget and Historical are presented for 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 information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits 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.

We have also compiled the accompanying forecast of Cannon Heights, Inc. for the year ending June 30, 2024, in accordance with attestation standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of forecasted data information that is the representation of management and does not include evaluation of the support for the assumptions underlying the information. We have not examined the forecasted information and, accordingly, do not express an opinion or any other form of assurance on the accompanying schedule or assumptions. Furthermore, there will usually be differences between the forecast and actual results, because events and circumstances frequently do not occur as expected, and these differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

The accompanying forecasted information, and this report are intended solely for the information and use of the Board of Directors and Shareholders' of Cannon Heights, Inc. and are not intended to be and should not be used by anyone other than these specified parties.

October 17, 2024 for Historical Statements

Marin & Montanye LLP

December 1, 2023 for Forecasted Statements

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CANNON HEIGHTS, INC.

SUPPORTING SCHEDULES – BALANCE SHEETS

As of June 30, 2023 and 2022

	2023	2022
ANALYSIS OF MORTGAGE ESCROW ACCOUNT WITH NEW YORK CITY HOUSING DEVELOPMENT CORPORATION	Schedule 1	
Real estate taxes	$ -	$ 156,327
Water and sewer charges	96,114	188,892
Hazard insurance	2,861	267,901
TOTAL MORTGAGE ESCROW ACCOUNT	$ 98,975	$ 613,120
REPLACEMENT RESERVE FUND REQUIREMENT	Schedule 2	
Required – July 1,	$ 468,906	$ 424,570
Plus: Allocated at $3,563 per month	14,250	42,750
Interest earned – Net of fees	5,718	1,586
Less: Withdrawals	(350,000)	-
Required June 30,	$ 138,874	$ 468,906
REPLACEMENT RESERVE		
Funds held by the New York City Housing Development Corporation	$ 138,874	$ 468,906
TOTAL RESERVE FUND – June 30,	$ 138,874	$ 468,906

See Accountant's Report.

CANNON HEIGHTS, INC.

SUPPORTING SCHEDULE – OPERATING EXPENSES

For the Years June 30, 2023 and 2022

	2023	2022
ADMINISTRATIVE AND MANAGEMENT EXPENSES	Schedule 3	
Telephone	$ 10,996	$ 9,756
Management fee	67,544	64,946
Legal and auditing	76,198	38,059
Consultant	23,787	2,536
Miscellaneous	58,872	35,827
Bad debt	5,314	-
TOTAL ADMINISTRATIVE AND MANAGEMENT EXPENSES	$ 242,711	$ 151,124
OPERATING EXPENSES	Schedule 4	
Payroll	$ 308,975	$ 285,313
Water and sewer charges	151,679	185,370
Electricity	245,340	205,026
Gas – cooking	9,337	9,105
Heating costs	280,560	217,534
Miscellaneous operating	9,785	80
Permits	9,253	479
Cable	48,715	47,308
TOTAL OPERATING EXPENSES	$ 1,063,644	$ 950,215
REPAIRS AND MAINTENANCE EXPENSES	Schedule 5	
Repairs and maintenance	$ 62,645	$ 162,614
Maintenance materials and supplies	38,862	79,027
Service contracts	2,210	4,469
Elevator maintenance and repairs	27,953	21,913
Plumbing and heating repairs	82,350	171,291
Exterminating	7,259	7,737
Grounds	19,864	-
TOTAL REPAIRS AND MAINTENANCE EXPENSES	$ 241,143	$ 447,051

See Accountant's Report.

CANNON HEIGHTS, INC.

SUPPORTING SCHEDULES – OPERATING EXPENSES

For the Years Ended June 30, 2023 and 2022

	2023	2022
TAXES, INSURANCE AND EMPLOYEE BENEFITS	Schedule 6	
New York City real estate taxes	$ 169,887	$ 142,807
Payroll taxes	28,071	25,448
Insurance	886,642	247,904
Employee benefits	87,642	108,261
TOTAL TAXES, INSURANCE AND EMPLOYEE BENEFITS	$ 1,172,242	$ 524,420
FINANCIAL EXPENSES	Schedule 7	
Interest on mortgage payable – senior – (includes amortized debt issuance costs)	$ 148,454	$ 151,120
Interest on mortgage payable – subordinate	6,335	6,580
Interest on 8A rehabilitation loan – (includes amortized debt issuance costs)	19,073	19,073
Other interest	54,845	26,593
TOTAL FINANCIAL EXPENSES	$ 228,707	$ 203,366
DEPRECIATION	Schedule 8	
Building and improvements	$ 169,417	$ 169,063
TOTAL DEPRECIATION	$ 169,417	$ 169,063

See Accountant's Report.

CANNON HEIGHTS, INC. EXHIBIT E

COMPARATIVE SCHEDULE OF INCOME AND EXPENDITURES - BUDGET, HISTORICAL AND FORECAST

Years Ended June 30, 2023, 2022 (Historical) and Year Ending June 30, 2024 (Forecasted)

	2023		2022	2024
	Budget Unaudited	Actual	Actual	Forecast
INCOME				
Apartments	$ 2,047,500	$ 2,047,519	$ 1,863,987	$ 2,127,800
Less: Vacancy loss	(11,800)	(52,736)	(62,390)	(50,600)
Equity Assessment	-	231,590	-	926,400
Parking	34,500	35,417	34,450	34,500
Surcharge retention	74,500	88,205	79,284	84,800
Laundry room	20,400	20,400	18,700	20,400
Air conditioning	25,700	24,452	24,830	25,000
Community room	2,500	3,575	2,600	2,100
Antenna income	23,700	23,761	23,256	24,200
Late fees, storage and miscellaneous	9,600	9,915	15,965	11,000
Recovery of bad debt	-	-	44,638	-
TOTAL INCOME	2,226,600	2,432,098	2,045,320	3,205,600
EXPENDITURES				
Management fee	66,200	67,544	64,946	68,850
Legal and auditing	40,700	76,198	38,059	42,800
Telephone	10,000	10,996	9,756	12,400
Cable television	48,300	48,715	47,308	48,900
Miscellaneous administrative	27,700	58,872	35,827	27,700
Bad debt	-	5,314	-	-
Consultants’ fee	8,100	23,787	2,536	18,900
Heating costs	239,300	280,560	217,534	328,300
Electricity and gas	237,500	254,677	214,131	287,800
Water and sewer charges	194,500	151,679	185,370	158,400
Payroll	293,900	308,975	285,313	312,100
Payroll taxes	26,500	28,071	25,448	28,100
Employee benefits	122,900	87,642	108,261	97,400
Materials: Repair and janitorial supplies	86,100	38,862	79,027	84,300
Repairs and maintenance	103,500	62,645	162,614	81,100
Heating and plumbing	87,200	82,350	171,291	103,200
Grounds	5,000	19,864	-	25,600
Elevator maintenance and repairs	22,400	27,953	21,913	26,100
Service contracts	3,200	2,210	4,469	3,200
Exterminating	8,000	7,259	7,737	7,500
Permits and miscellaneous operating	1,800	19,038	559	1,800
New York City real estate taxes	156,800	169,887	142,807	142,800
Insurance	899,000	886,642	247,904	863,400
Mortgage amortization and interest **(1)**	235,700	190,006	235,151	253,400
Other interest	-	54,845	26,593	-
Reserve fund contributions	15,700	14,250	42,750	42,750
TOTAL EXPENSES	2,940,000	2,978,841	2,377,304	3,066,800
SURPLUS (DEFICIT) FROM OPERATIONS	$ (713,400)	$ (546,743)	$ (331,984)	$ 138,800

(1) Excludes amortized debt issuance costs.

See Accountant’s Compilation Report and Summary of Significant Accounting Policies and Assumptions.

CANNON HEIGHTS, INC.

YEAR ENDING JUNE 30, 2024

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND FORECAST ASSUMPTIONS

NOTE A: The financial forecast presents, to the best of management's knowledge and belief, the company's expected results of operations for the forecast period. Accordingly, the forecast reflects its judgment, as of December 1, 2023, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

NOTE B: Basis of Accounting – The accompanying forecast is presented using the accrual basis of accounting. Income is recorded when earned and expenses are recorded when incurred.

NOTE C: Income Tax – The Corporation is subject to Federal income tax based on net income. The Corporation is a limited profit housing company and is exempt from New York State and City tax.

NOTE D: Revenue – Maintenance charges have been computed based on $177,318 per month.

NOTE E: Expenses – Payroll expense is based on the current union contract. Utility rates are set by the appropriate regulatory agencies.

NOTE F: Debt – The accompanying forecast assumes the following debt:

1. Mortgage Payable – Senior – Monthly payments of $15,529 representing payments of principal and interest at a rate of 6.45% per annum.

2. Loan Payable – Subordinate - Monthly payments of $2,583 representing payments of principal and interest at a rate of 1% per annum.

3. Article 8A Loan – Monthly payments representing interest only on the outstanding balance at a rate of 1% per annum.