3 Hanover Square Owners Corp.
Financial Statements
December 31, 2022 and 2021

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WilkinGuttenplan
CPAs & Advisors

Independent Auditors' Report

To the Board of Directors and Shareholders of

3 Hanover Square Owners Corp.

Qualified Opinion

We have audited the accompanying financial statements of 3 Hanover Square Owners Corp. (the "Corporation") which comprise the balance sheets as of December 31, 2022 and 2021 and the related statements of operations, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021, and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

As more fully described in Note 2 and 6 to the financial statements, the Corporation recognizes commercial rental income from long-term leases based upon the lease agreements, whereas accounting principles generally accepted in the United States of America require rental income to be recognized on a straight-line basis over the lease term. Had this guidance been adopted by the Corporation, the amounts reported for assets, liabilities, revenues, and expenses would have been materially affected.

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 Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the 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 the Board of Directors for the Financial Statements

The Board of Directors (the "Board") 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 financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the Board is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audits 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 auditors' 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. 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.

3. 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 the Corporation's internal control. Accordingly, no such opinion is expressed.

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by the Board, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

The Board 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, which 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 this missing information.

Report on Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information shown on pages 17 through 19 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Board, and except for the portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

New York, New York

June 16, 2023

3 Hanover Square Owners Corp.
Balance Sheets
December 31, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	$ 1,588,661	$ 1,217,785
Restricted cash - mortgage (Note 4)	191,575	162,635
Restricted cash - security deposits	179,305	133,597
Due from shareholders	52,316	47,542
Other receivable	-	35,700
Due from commercial tenants	973,084	1,308,104
Less: Allowance for doubtful receivables - commercial tenants	(551,000)	(915,000)
Prepaid expenses	30,844	37,142
Property and equipment, net	6,549,428	6,652,053
Commercial lease brokerage commissions, net	142,032	62,398
Total Assets	$ 9,156,245	$ 8,741,956
Liabilities and Shareholders' Equity		
Liabilities		
Accounts payable and accrued expenses	$ 299,696	$ 261,053
Capital improvements payable	107,699	62,418
Abatements payable	227,525	209,775
Income received in advance	20,883	23,099
Mortgage payable	7,273,018	7,473,950
Loan payable	112,110	272,119
Less: Mortgage and loan costs, net	(95,753)	(101,637)
Security deposits payable	179,305	133,597
Total Liabilities	8,124,483	8,334,374
Commitment/Contingency (Note 12)		
Shareholders' Equity		
Capital stock; $1 par value per share, 23,524 shares authorized, issued and outstanding	23,524	23,524
Additional paid-in capital	20,294,036	19,933,095
Accumulated deficit	(19,285,798)	(19,549,037)
Total Shareholders' Equity	1,031,762	407,582
Total Liabilities and Shareholders' Equity	$ 9,156,245	$ 8,741,956

The accompanying notes are an integral part of these financial statements.

3 Hanover Square Owners Corp.
Statements of Operations
For the Years Ended December 31, 2022 and 2021

	2022	2021
Income		
Maintenance charges	$ 4,011,600	$ 3,821,221
Less: Abatements	(435,511)	(420,536)
Less: Mortgage and loan amortization	(360,941)	(339,831)
Less: Designated for capital improvements	(110,000)	-
Commercial rent	1,071,575	1,078,038
Add (less): recovery of/(provision for) doubtful receivables	57,755	(470,562)
Operating assessments	929,269	1,081,402
Transfer fees	191,025	200,925
Cable income	58,408	55,423
Laundry income	30,000	22,100
Other income	48,007	45,575
Total Income	5,491,187	5,073,755
Expenses		
Real estate taxes	2,744,572	2,657,498
Less: Abatements	(435,511)	(420,536)
Mortgage and loan interest	460,517	481,439
Payroll and related expenses	1,022,918	1,084,599
Electric and gas	106,372	88,028
Heating	243,290	221,780
Water and sewer, net	107,847	109,607
Cable expense	68,725	70,398
Repairs and maintenance	267,421	271,257
Insurance	162,119	144,046
Management fees	108,141	90,000
Professional fees	129,009	132,374
Corporation taxes	14,235	12,141
Office and administration	23,161	21,400
Total Expenses	5,022,816	4,964,031
Income from Operations	468,371	109,724
Other Items		
Maintenance charges designated for capital improvements	110,000	-
Paycheck Protection Program proceeds	-	182,730
Depreciation	(178,433)	(176,562)
Amortization of leasing costs	(130,815)	(79,777)
Interest - amortization of mortgage and loan costs	(5,884)	(5,884)
Net Income	$ 263,239	$ 30,231

The accompanying notes are an integral part of these financial statements.

3 Hanover Square Owners Corp.
Statements of Shareholders' Equity
For the Years Ended December 31, 2022 and 2021

	Capital Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
Balances - December 31, 2020	$ 23,524	$ 19,593,264	$ (19,579,268)	$ 37,520
Net income - 2021	-	-	30,231	30,231
Shareholders' contributions for mortgage and loan amortization	-	339,831	-	339,831
Balances - December 31, 2021	23,524	19,933,095	(19,549,037)	407,582
Net income - 2022	-	-	263,239	263,239
Shareholders' contributions for mortgage and loan amortization	-	360,941	-	360,941
Balances - December 31, 2022	$ 23,524	$ 20,294,036	$ (19,285,798)	$ 1,031,762

The accompanying notes are an integral part of these financial statements.

3 Hanover Square Owners Corp.
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities		
Net income	$ 263,239	$ 30,231
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	315,132	262,223
(Recovery of)/provision for doubtful receivables	(57,755)	470,562
Write off of uncollectible amounts	(306,246)	(174,562)
Changes in assets and liabilities		
Due from shareholders	(4,774)	(12,070)
Other receivable	35,700	(35,700)
Due from commercial tenants	335,020	(422,014)
Prepaid expenses	6,298	11,620
Commercial lease brokerage commissions	(135,757)	(14,130)
Accounts payable and accrued expenses	38,643	19,918
Abatements payable	17,750	(7,795)
Income received in advance	(2,216)	(23,773)
Security deposits payable	45,708	(3,557)
Net Cash Provided by Operating Activities	550,742	100,953
Cash Flows from Investing Activities		
Capital improvements payable	45,281	19,211
Additions to property and equipment	(150,499)	(69,449)
Net Cash Used in Investing Activities	(105,218)	(50,238)
Cash Flows from Financing Activities		
Contributions for mortgage and loan amortization	360,941	339,831
Mortgage and loan principal payments	(360,941)	(339,831)
Net Cash Provided by Financing Activities	-	-
Net Increase in Cash, Cash Equivalents, and Restricted Cash	445,524	50,715
Cash, Cash Equivalents, and Restricted Cash - Beginning of Year	1,514,017	1,463,302
Cash, Cash Equivalents, and Restricted Cash - End of Year	$ 1,959,541	$ 1,514,017
Cash and cash equivalents	$ 1,588,661	$ 1,217,785
Restricted cash - mortgage	191,575	162,635
Restricted cash - security deposits	179,305	133,597
Total Cash, Cash Equivalents and Restricted Cash - End of Year	$ 1,959,541	$ 1,514,017
Supplemental Disclosure		
Cash paid during the year for mortgage and loan interest	$ 462,505	$ 504,693

The accompanying notes are an integral part of these financial statements.

Note 1 Nature of Organization

3 Hanover Square Owners Corp. (the "Corporation"), a cooperative housing corporation, began operations on January 22, 1985 under the laws of the State of New York to provide housing to shareholders on a cooperative basis. The Corporation's property, which is located at 3 Hanover Square in the Borough of Manhattan, consists of 205 apartments, a superintendent's apartment, and commercial space.

Note 2 Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements were prepared using the accrual method of accounting.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board of Directors (the "Board") to make certain estimates and assumptions that may 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.

Cash and Cash Equivalents

For purposes of the balance sheets and statements of cash flows, the Corporation considers all highly liquid investments acquired with a maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash - security deposits represent monies collected by the Corporation to cover damages that result from shareholders' moving in or out of the building, damages that result from shareholders' alterations, and amounts received from commercial tenants as required under their respective leases. Restricted cash – mortgage represent funds held by NorthMarq to fund capital improvements to the commercial space (see Note 4).

Property and Equipment

Property and equipment are stated at cost. Expenditures which represent improvements to property are capitalized, while repairs and maintenance are charged to operations. Depreciation is computed using rates adequate to depreciate the cost of applicable assets over their expected useful lives.

Note 2 Summary of Significant Accounting Policies (Continued)

Mortgage, Loan and Commercial Lease Brokerage Commissions Costs

Mortgage and loan costs of approximately $163,000, which represent various costs in connection with the refinancing of the mortgages on December 1, 2010, and the financing on July 1, 2016 to fund the conversion of the building's heating system to a dual-fuel system, are amortized on a straight-line basis (which approximates the yield method) over the terms of the mortgage and loan.

Commercial lease brokerage commissions, which represent real estate brokerage commissions in connection with the acquisition of the various commercial leases, are amortized over the terms of the applicable commercial leases.

Maintenance Charges and Assessments/Due from Shareholders

Shareholders are subject to monthly charges based upon the annual budget. The purpose of maintenance charges and operating assessments is to provide funds for operating expenses, contributions to reserves, and debt service. Monthly maintenance charges and operating assessments represent multiple performance obligations which, on a standalone basis, are not considered separate and distinct and therefore have been deemed to be a single performance obligation. Revenue is recognized as the performance obligation is satisfied at transaction amounts expected to be collected. The performance obligation for maintenance charges and operating assessments is satisfied over time on a daily pro-rata basis using the input method. Any excess of revenues over expenses at year end are retained by the Corporation for use in the succeeding year.

Due from shareholders at the balance sheet dates include maintenance and other charges due from shareholders. According to the by-laws, the Corporation shall, at all times, have a first lien upon the shares of each shareholder to secure the payment by such shareholder. The Board's intention is to reacquire shares of stock relating to severely delinquent units and sell them to recover the delinquent fees. All shareholder receivables have been deemed collectible at both December 31, 2022 and 2021.

Commercial Rent/Due from Commercial Tenants

The commercial rent leases are classified as operating leases and in accordance with accounting principles generally accepted in the United States of America. Free rent, advance rent, scheduled rent increases, and deferred rent are required to be recognized on a straight-line basis over the terms of the leases. The accompanying financial statements recognize commercial rent income based upon the rent payments required under the leases, which is a departure from accounting principles generally accepted in the United States of America.

At December 31, 2022 and 2021, the Corporation determined there was doubt as to the collectability of a portion of the amounts due from commercial tenants and, accordingly, an allowance for doubtful receivables of $551,000 and $915,000, respectively, has been recorded.

Note 2 Summary of Significant Accounting Policies (Continued)

Mortgage and Loan Amortization

In accordance with the Corporation's governing documents, the portion of maintenance charges needed to pay the mortgage and loan amortization is treated as capital contributions.

Transfer Fees

It is the Corporation's policy to charge transfer fees to shareholders upon the resale of shares applicable to their apartments equal to 3% of the gross sales price. Transfer fees are recognized as revenue as the performance obligation is satisfied at transaction amounts expected to be collected. The performance obligation for transfer fees is satisfied on the closing date of the apartment when the shares are legally transferred.

Subsequent Events

The Corporation has evaluated events and transactions that occurred through the date of the auditors' report, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements (See Note 14).

Note 3 Property and Equipment

Property and equipment consisted of the following, at December 31:

	2022	2021
Land	$ 10	$ 10
Building	21,984,029	21,984,029
Building improvements	8,731,192	8,580,694
Commercial lease acquisition costs	2,671,574	2,671,574
Total	33,386,805	33,236,307
Less: Accumulated depreciation, including accumulated amortization of lease acquisition costs of $1,707,023 and $1,632,332, respectively	26,837,377	26,584,254
Total	$ 6,549,428	$ 6,652,053

Note 4 Mortgage Indebtedness

Indebtedness consists of a mortgage note payable to NorthMarq Capital Finance, LLC ("NorthMarq"). The mortgage is secured by the property, bears interest at the fixed rate of 6% per annum and matures December 1, 2040, when the principal balance of approximately $571,000 is payable. Prepayment is subject to penalties, as set forth in the agreement.

Note 4 Mortgage Indebtedness (Continued)

At December 31, 2022, the amount of required principal payments on the mortgage are as follows, for the years ending December 31:

2023	$ 213,502
2024	225,633
2025	240,973
2026	256,048
2027	272,066
2028 – 2040	6,064,796
Total	$ 7,273,018

Pursuant to the mortgage agreement, the Corporation is required to escrow with NorthMarq an initial deposit of $50,000 under a Commercial Lease Rollover Reserve and Security Agreement, plus monthly deposits of $2,389 during the term of the mortgage, to fund improvements to the commercial space upon the releasing of such space, and/or any applicable leasing commissions. In 2021, the Corporation was required to submit all then current leases to NorthMarq, at which time NorthMarq can modify the monthly deposit under this provision. As of the date of the auditors' report, no modifications were required. At December 31, 2022 and 2021, balances in this account were $191,575 and $162,635, respectively.

The Corporation also entered into a Replacement Reserve Security Agreement with NorthMarq, whereby NorthMarq may require the Corporation to make monthly deposits of $5,586 into the Replacement Reserve in the future.

Note 5 Loan Payable

In 2016, the Corporation obtained a $1,000,000 unsecured loan payable to M-Core Credit Corporation, to fund the conversion of the building's heating system to a dual-fuel system. The loan is self-amortizing, bears interest at the fixed rate of 5.99% per annum and matures September 1, 2023. Prepayment is subject penalties, as set forth in the agreement.

At December 31, 2022, the required principal payments on the loan for the year ending December 31, 2023 totaled $112,110.

Note 6 Commercial Rent

The Corporation is committed under several lease agreements for its commercial space, which expire at various dates through 2036. Future minimum annual rent payments to be received by the Corporation under these leases are approximately as follows (see below), for the years ending December 31:

2023	$ 971,000
2024	760,000
2025	462,000
2026	476,000
2027	486,000
2028 - 2036	3,385,000
Total	$ 6,540,000

The Corporation is in discussions with various tenants regarding the abatement and/or deferral of rents due under their respective leases as a result of COVID-19 (see Note 14). In addition, as the Board determined there was doubt as to the collectability of the receivables due from the commercial tenants at both December 31, 2022 and 2021 (see Note 2), the minimum rents noted above might not be collected in full.

The Corporation is also entitled to additional rents based on a percentage of the increase in real estate taxes over base amounts. For the years ended December 31, 2022 and 2021, these additional rents totaled $173,460 and $164,879, respectively.

Note 7 Real Estate Tax Abatements

Pursuant to various real estate tax abatement programs, certain shareholders are entitled to real estate tax abatements and exemptions. The abatements and exemptions are credited against the real estate tax due on the property and the Corporation is required to pass on the abatements and exemptions to the eligible shareholders.

For the year ended December 31, 2022, abatements and exemptions received by the Corporation totaled $435,511, of which $227,525 is due to shareholders at December 31, 2022, representing the portion of the abatements and exemptions applicable to the period July 1, 2022 to December 31, 2022, which was credited to shareholders in 2023. For the year ended December 31, 2021, abatements and exemptions received by the Corporation totaled $420,536, of which $209,775 was due to shareholders at December 31, 2021, representing the portion of the abatements and exemptions applicable to the period July 1, 2021 to December 31, 2021, which was credited to shareholders in 2022.

Note 8 Multiemployer Union Pension Plan

The Corporation contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement that covers its union-represented employees. The risks of participating in a multiemployer plan differ from those of a single-employer plan in the following respects: (a) contributions to the plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if the Corporation chooses to stop participating in the plan, it may be required to pay the plan an amount based on the unfunded status of the plan, which is referred to as the withdrawal liability.

For the years ended December 31, 2022 and 2021, the Corporation's participation in the multiemployer plan is outlined below:

Legal name: Building Service 32BJ Pension Fund ("Plan")
Employer identification number: 13-1879376
Plan number: 001
Collective bargaining agreement ("CBA") expiration date: April 20, 2026
Pension Protection Act Zone Status:
Year beginning July 1, 2022 - Yellow (between 65% and 80% funded)
Year beginning July 1, 2021 - Red (less than 65% funded)
Funding improvement plan/Rehabilitation plan status: Implemented
Surcharges paid to plan: No
Corporation's contributions:

Year ended December 31, 2022	$ 68,391
Year ended December 31, 2021	$ 70,810

Minimum required pension contributions (per week/per employee):

Year ended December 31, 2021	$ 122.75
Year ended December 31, 2022	$ 126.75
Year ending December 31, 2023	$ 130.75
Year ending December 31, 2024	$ 134.75
Year ending December 31, 2025	$ 138.75
Period ending April 20, 2026	$ 142.75

The information provided above is from the Plan's most current annual report for the year ended June 30, 2022. The Pension Protection Act Zone Status is the most recent zone status available, was provided to the Corporation by the Plan, and is certified by the Plan's actuary. The Corporation's contributions to the Plan are less than 5% of all employers' contributions to the Plan, and there have been no significant changes that would affect the comparability of the contributions for the years ended December 31, 2022 and 2021. In addition, under the CBA, certain retired employees are eligible for health benefits as defined in the CBA.

Note 9 Corporation Taxes

The Corporation is subject to taxation as a cooperative corporation for federal, state, and local purposes. A cooperative corporation is required to classify its income and expenses as patronage or nonpatronage. Expenses attributable to producing patronage income cannot be deducted from nonpatronage income. As a result, nonpatronage income in excess of allocable expenses is subject to income tax. The courts have defined patronage income as income derived from an activity that is so closely intertwined with the main cooperative effort that it may be characterized as directly related to, and inseparable from, the cooperative's principal business activity, and thus facilitates the accomplishment of the cooperative's business purpose. However, if the transaction or activity which produces the income merely enhances the overall profitability of the cooperative, then the income therefrom is nonpatronage income.

The law is not clear on how the determination is to be made whether certain elements of income and expenses of cooperative housing corporations are patronage or nonpatronage. The Corporation's practice in filing its income tax returns has been to report all income and expenses as patronage sourced. The Corporation and legal counsel have evaluated the Corporation's tax position and determined that it is more likely than not that the tax position will be sustained on examination by the taxing authorities, including any related appeals or litigation, based on the technical merits of the position. However, in the event the taxing authorities were to successfully challenge the Corporation's classification of certain of its income and expenses, the Corporation would be subject to additional income taxes and interest. The Corporation believes it has sufficient resources available to pay any additional income taxes and interest in such an event.

At December 31, 2022 and 2021, the Corporation had net operating loss carryovers of approximately $10,659,000 and $10,825,000, respectively, which may be used to offset future taxable income. The federal net operating loss carryforwards at December 31, 2022 will expire between the years 2023 and 2037 for losses incurred prior to January 1, 2018 (approximately $9,276,000). Net operating losses incurred starting January 1, 2018 (approximately $1,383,000) do not expire. In addition, for net operating losses incurred starting January 1, 2021, the deduction of such losses will be limited to 80% of taxable income. The Corporation is unable to determine the future benefit, if any, of the loss carryover and accordingly, a valuation allowance has been provided to offset any potential future benefit.

In addition to taxes based on income, New York State and New York City calculate tax based on alternative and minimum tax bases, of which the applicable taxes have been recorded in the accompanying financial statements.

The Corporation evaluates its tax provisions and accruals and believes that they are appropriate based upon current facts and circumstances. The Corporation's income tax returns are subject to examination by taxing authorities for a period of three years from the filing date of the tax returns. There are currently no tax examinations in progress.

Note 10 Concentration of Credit Risk

The Corporation maintains cash balances at institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). Cash and cash equivalents may, at times, exceed the federally insured limits. The Corporation has not experienced any losses in such accounts as of the date of the auditors' report.

Note 11 Future Major Repairs and Replacements/Reserves

The Corporation has elected to not expend any funds on a formal study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements/reserves that may be required in the future. The Corporation's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements/reserves. However, for the year ended December 31, 2022, the Corporation designated $110,000 of maintenance charges to fund capital improvements. When replacement funds/reserves are needed to meet future needs for major repairs and replacements, the Corporation has the right to utilize available cash and investments, increase maintenance charges, impose special assessments, borrow, and delay repairs until the funds are available or, any combination of the above. The effect on future charges or assessments to shareholders has not been determined at this time.

Note 12 Commitment/Contingency

In a prior year, the Corporation had entered into a contract for the installation of a co-generation heating and electrical system of which approximately $430,000 had been incurred through December 31, 2020. The project was put on hold and the contract was later cancelled. In 2022, the Corporation commenced litigation to recover monies advanced to the contractor and the generator provider of approximately $92,000. The contractor has not asserted any counterclaims for any alleged balances owed under the contract. As of the date of the auditors' report, the outcome of the claim is unknown, and accordingly, no amounts have been recorded in the accompanying financial statements.

The Corporation plans to recommence the project with a new vendor however, no contracts have been signed and the total cost is unknown as of the date of the auditors' report. In addition, based on a preliminary review by the New York Energy Research and Development Authority ("NYSERDA"), the Corporation expects to receive a grant of approximately $65,000 from NYSERDA to subsidize the cost of the co-generation project.

Note 13 Paycheck Protection Program

In March 2021, the Corporation obtained a $182,730 loan under the Paycheck Protection Program (the "Program"), which is administered by the Small Business Administration (the "SBA"). Under the Program, the Corporation may request forgiveness of the loan based on the use of the loan proceeds for eligible expenses as provided under the Program. The Corporation filed an application for and received notification of forgiveness for the loan. Loan forgiveness was recorded in the accompanying statements of operations for the year ended December 31, 2021. However, the SBA has the right to challenge the Corporation's eligibility under the Program.

Note 14 Operating Assessments/Subsequent Event

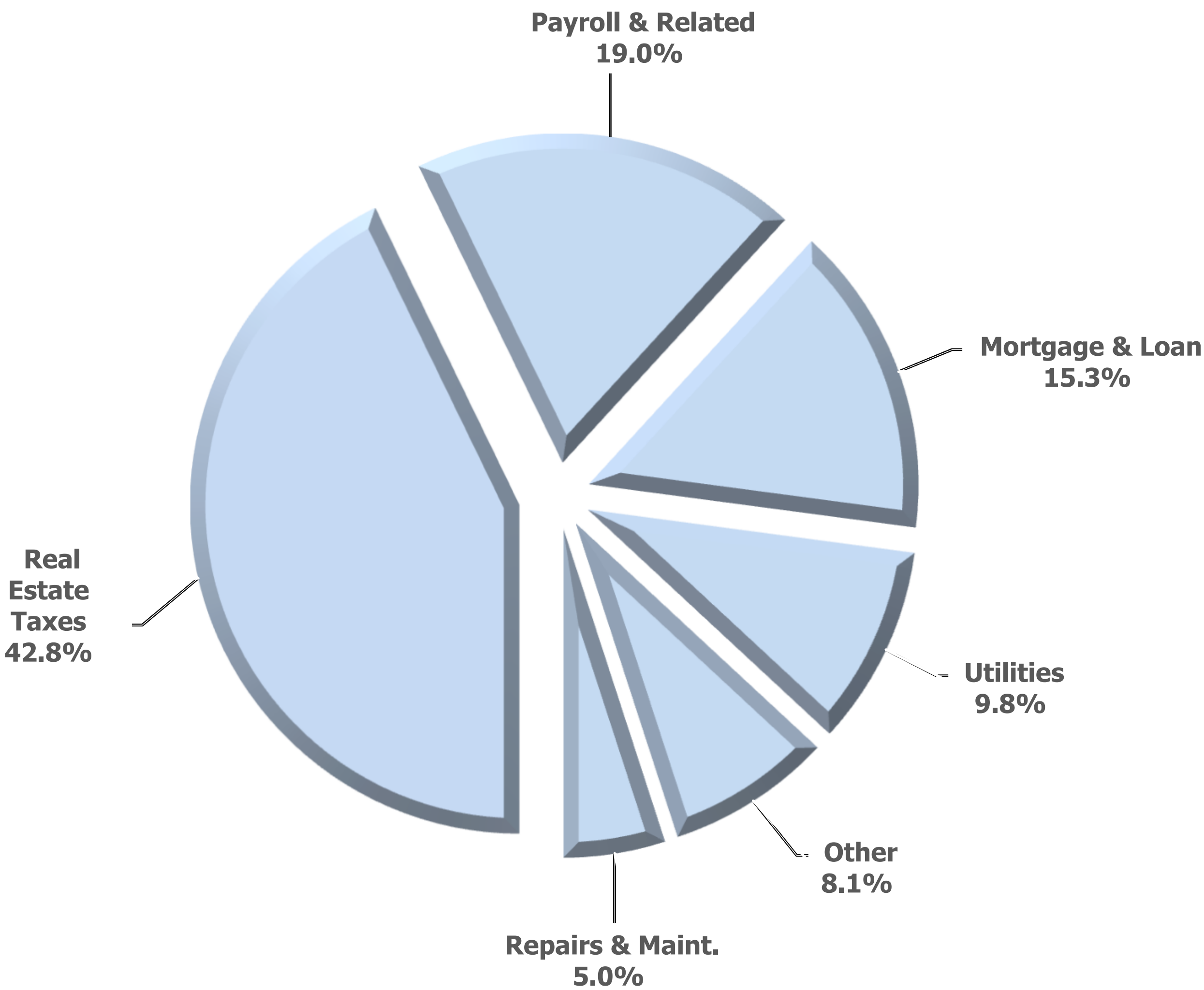
For the years ended (ending) December 31, 2021, 2022, and 2023, the Board imposed operating assessments of approximately $26 per share, $20 per share, and $10 per share, respectively, to fund operating expenses as a result of the uncertainty as to the collection of the Corporation's commercial rent. Each of the assessments were (will be) billed over twelve months.

SUPPLEMENTARY INFORMATION

3 Hanover Square Owners Corp.
Actual vs. Budget
For the Year Ended December 31, 2022

	Actual	Budget (Unaudited)
Income		
Maintenance charges	$ 4,011,600	$ 4,011,600
Less: Abatements	(435,511)	(417,549)
Less: Designated for capital improvements	(110,000)	(110,000)
Commercial rent, including recovery of doubtful receivables of $57,755 (actual only)	1,129,330	887,638
Operating assessments	929,269	968,446
Transfer fees	191,025	90,000
Cable income	58,408	68,180
Laundry income	30,000	30,000
Other income	48,007	9,000
Total Income	5,852,128	5,537,315
Expenses		
Real estate taxes	2,744,572	2,750,814
Less: Abatements	(435,511)	(417,549)
Mortgage and loan indebtedness	821,458	821,996
Payroll	681,939	681,049
Payroll taxes	56,707	57,800
Pension and welfare	254,359	299,890
Other payroll related expenses	29,913	33,640
Electric and gas	106,372	94,800
Heating	243,290	222,000
Water and sewer, net	107,847	189,275
Cable expense	68,725	72,321
Building supplies	28,910	30,000
Elevator maintenance	51,372	51,837
Other repairs and maintenance	187,139	148,000
Insurance	162,119	150,333
Management fees	108,141	108,141
Professional fees	129,009	110,900
Corporation taxes	14,235	15,000
Other administrative	23,161	27,000
Total Expenses	5,383,757	5,447,247
Income from Operations	$ 468,371	$ 90,068

3 Hanover Square Owners Corp.
Expense Analysis by Percentage
For the Year Ended December 31, 2022



The portion of maintenance charges applicable to the payment of principal on the mortgage and loan indebtedness, and maintenance charges and assessments designated for capital improvements, can increase a shareholders' cost basis in their stock (apartment). These increases, on a per share basis, are as follows, for the years ended December 31:

2022	$	20.02
2021		14.45
2020		13.55
2019		12.81
2018		12.06
2017		11.35
2016		8.29
2015		5.59
2014		15.94
2013		22.80
2012		18.13
2011		23.27
2010		15.45
2009		25.17
2008		15.71
2007		12.60
2006		11.55
2005		10.59
2004		9.71
2003		8.90
2002		8.16
2001		7.48
2000		8.82
1999		28.25
1998		7.77
1997		7.28
1996		0.42
1991-1995		-