

December 5, 2008

Dear Fellow Shareholders:

The Board has recently completed its financial projections for year-end 2008 and has adopted an operating budget for 2009.

We are pleased to report that 205 West End will finish this year with a small operating surplus. Thanks to conservative financial management, the efficiencies brought by our cogeneration initiative, and a bit of luck, we have successfully completed another year.

We have now completed the fourth year of the capital improvement plan that commenced in 2005 and has included so far exterior work related to the balconies and Local Law 11 compliance, the repair of façade leaks, and hallway renovations. The new lobby restoration committee has completed the design phase and has produced an estimated budget. We expect to fund this final capital project from the remainder of the money we raised in 2005 along with this year's operating surplus, thus allowing us to complete the project without an assessment.

### **Variations between budgets and projected year-end actual expenditures**

As you know, many of the cooperative's expenses are not easily under the board's control. Labor costs are dictated by union contracts, insurance rates are set by carriers, energy prices by the market, and taxes by the city. That said, we make every effort to control all other costs. While 2008 final numbers still have to be confirmed, and will be audited by our accountant and reviewed by you at the time of our annual shareholders' meeting in the spring, here is how 2009 looks:

**Real Estate Taxes**, budgeted for 2008 at \$3,004,900, are projected to end the year 1.4% under budget at \$2,964,000. In 2009 we will pay real estate taxes of \$3,424,700, a dramatic increase of over 15%. If it were not for this property tax increase, we would not need to raise maintenance for 2009 at all.

**Utilities (electric, steam and cogen gas)**, were budgeted at a combined cost of \$1,447,700 for 2008. While all final bills are still to be presented, the projected energy expenditures in these categories are forecast to be approximately \$1,489,000. Our projections for next year are for an aggregate cost of \$1,547,700, estimating no increase in gas expenditures, a 5% increased steam expenditure and a 5% rate increase in Con Ed electricity expenditures. As we have noted in our last three annual reports, the 2009 budget continues to reflect the savings from producing a significant portion of our electricity and steam needs from our cogeneration plant.

Note: Although we have submetered the co-operative, the budget for the condominium must reflect the entire electrical payments to our suppliers so that our bills get budgeted, paid, and booked properly. Due to submetering, only about 35% of the building's electrical consumption, that is used by the common areas, is applied to our maintenance calculations. The remaining 65% of our electrical usage is paid directly by tenants and shareholders according to measured consumption, and does not affect maintenance charges.

**Cogen Assessment** – 2008 is the final year of the cogen assessment. As of the December 2008 maintenance bill, the capital costs of the cogen system are paid off. We have been reaping benefits from the cogens over the last five years and we expect to continue to reap those benefits going forward. The ending of the cogen assessment will reduce the net cost per share per month by \$0.045 effective in January of 2009.

**Insurance costs** for 2008 were budgeted at \$219,400, and will end this year at \$219,300. For 2009, we are forecasting a small increase of less than 1% and are budgeting \$229,600.

*LTCA Dues* will not be increased relative to 2008 actual payments of \$538,300.

*Staff Payroll* - wages, benefits, workers compensation, and disability insurance – will be going from \$1,129,900 in 2008 to 1,144,100 in 2009, an increase mandated by our union contractual obligations which call for 2.8 % labor increases and 5% in benefits.

*Maintenance and Repairs* have begun to level off. Our anticipated expenditures in 2008 appear to be coming in just under our budgeted number of \$469,000. Based on recommendations from our Resident Manager and AKAM, we are budgeting \$458,000 for 2009, a reduction of about 2%.

*Water and Sewer* will be increasing from a 2008 forecast expenditure of \$130,400 to a 2009 budgeted number of \$149,000, a 14% increase, representing our expectations that the city will hike rates again. Diligence by management ensured that the City used actual meter readings rather than overestimating our usage, producing an \$110,000 refund in 2008.

*Mortgage Interest and Amortization* on our prime and secondary mortgage will remain constant from 2008 to 2009 at a combined \$1,492,300.

**In summary: For 2009, shareholders can expect a 3.97 % maintenance increase (for a total of \$3.07 per share per month). Because the ending of the cogen assessment will reduce the monthly per-share charge by about 1.5%, the total monthly charges you will actually pay starting in January of 2009 will be only 2.5% higher than in 2008.**

Along with all other New York City cooperatives, given the increases in NYC real estate tax, labor, utilities, and other costs, we are facing a maintenance increase for the year beginning January 1, 2009. As in previous years, we will be recouping some of the increased operating costs by holding back the NYC real estate tax rebate due most shareholders in the first quarter of 2009. You will see a credit/debit journal entry on your March statement. From an accounting standpoint this is treated as an operating assessment, and will allow us to hold the maintenance increase to 3.97%.

From the start, we have tried to be both prudent in our expenditures and, whenever possible, to make full use of opportunities that would contribute to our building's overall financial health. This includes lowering costs whenever possible. 205 West End Avenue remains one of the most financially competitive buildings in the Lincoln Towers complex, measured by maintenance increases, maintenance per share, general balance sheet, and capital improvement measures.

We appreciate your confidence and ongoing feedback and the entire Board joins me in wishing you and your family a very good holiday season and a happy, healthy New Year.

Sincerely,



Stuart Sugarman, President