FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

INDEX

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
BALANCE SHEETS	2–3
STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY	5 5 6 6
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8–12
REPORT ON SUPPLEMENTARY DATA	13
STATEMENTS OF OPERATIONS AND RELATED BUDGETS	14

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers and Unit Owners of Sample Condominium

We have audited the accompanying balance sheets of Sample Condominium (the "Association") as of December 31, 2010 and 2009, and the related statements of operations and changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Association's management. 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Condominium as of December 31, 2010 and 2009 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.

As discussed in Note 3 to the financial statements, the Association's governing documents do not require that funds be accumulated for future major repairs and replacements. As such, the Association has not estimated the remaining useful lives and replacement costs of the common property and, therefore, has not presented the estimates of future costs of major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be part of, the basic financial statements.

GREENBERG & BRENNAN, CPA's, P.C.

Greenberg & Brennan, CPA's, P.C.

April 21, 2011

BALANCE SHEETS

ASSETS

11001	210		
	Decem	December 31,	
	<u>2010</u>	2009	
CURRENT ASSETS			
Cash and Equivalents: (Note 2B)			
Cash – Operating Account	\$ 64,668	\$ 86,660	
Reserve Fund (Note 4)	222,576	91,797	
Total Cash and Equivalents	287,244	178,457	
Mortgage Defeasance Fund (Note 4)	129,468	67,325	
Unit Owner Receivables (Note 2E)	58,608	43,137	
Other Receivables	570	1,331	
Prepaid Insurance	32,594	34,473	
Other Prepaid Expenses	76	1,776	
Total Current Assets	508,560	326,499	
Fixed Assets (Notes 2C and 2D)			
Superintendent's Apartment	250,000	250,000	
Fixtures and Equipment	16,668	16,668	
	266,668	266,668	
Less: Accumulated Depreciation	34,457	22,606	
Net Book Value of Fixed Assets	232,211	244,062	
TOTAL ASSETS	<u>\$ 740,771</u>	<u>\$ 570,561</u>	

BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	December 31,	
Current Liabilities	<u>2010</u>	2009
Accounts Payable and Accrued Expenses Prepaid Common Charges	\$ 75,003 1,436	\$ 56,613
Total Current Liabilities	76,439	57,372
Mortgage Payable (Note 6)	230,000	236,566
Total Liabilities	306,439	293,938
Members' Equity		
Accumulated Surplus from Operations	392,482	234,773
Working Capital Contributions (Note 2F)	41,850	41,850
Total Members' Equity	434,332	276,623
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 740,771</u>	<u>\$ 570,561</u>

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY

	For the Years Ended December 31,	
INCOME	<u>2010</u>	<u>2009</u>
INCOME		
Common Charges (Note 2E)	\$ 750,754	\$ 750,754
Late Charges	4,150	5,700
Moving Fees	1,600	9,825
Miscellaneous	14,062	8,525
Interest Income	1,225	695
Laundry	<u>15</u>	1,434
TOTAL INCOME	<u>771,806</u>	776,933
EXPENSES		
Administrative Expenses – Schedule 1	129,325	114,788
Operating Expenses – Schedule 2	362,249	372,903
Repairs and Maintenance – Schedule 3	71,327	53,724
Taxes – Schedule 4	1,085	1,197
Major Repairs and Replacements – Schedule 5	21,285	_
Mortgage Interest Expense (Note 6)	<u>16,975</u>	16,975
TOTAL EXPENSES	602,246	559,587
Surplus Before Depreciation	169,560	217,346
Less: Depreciation (Note 2C)	11,851	10,746
NET SURPLUS FOR THE YEAR	157,709	206,600
MEMBERS' EQUITY – Beginning of the Year	276,623	70,023
MEMBERS' EQUITY – End of the Year	<u>\$ 434,332</u>	<u>\$ 276,623</u>

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY

	For the Years Ended December 31,	
SCHEDULE 1	2010	<u>2009</u>
ADMINISTRATIVE EXPENSES		
Management Fees	\$ 35,650	\$ 33,953
Legal Fees	5,906	5,501
Auditing Fees	8,400	8,100
Other Professional Fees	950	_
Building Insurance	58,432	55,312
Telephone	7,654	5,333
Bad Debt – Uncollectible Arrears Write Off (<i>Note 2E</i>)	6,132	_
Miscellaneous Administrative	<u>6,201</u>	<u>6,589</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 129,325</u>	<u>\$ 114,788</u>
SCHEDULE 2		
OPERATING EXPENSES		
Utilities		
Heating	\$ 73,252	\$ 88,344
Electricity and Gas	66,892	71,846
Water and Sewer Charges	32,147	26,750
Total Utilities	172,291	186,940
Payroll and Related Costs		
Concierge Service	89,178	95,189
Payroll	85,584	76,874
Payroll Taxes	8,162	9,043
Disability and Workers Compensation Insurance	6,086	3,900
Other Payroll Costs	948	957
Total Payroll and Related Costs	<u> 189,958</u>	185,963
TOTAL OPERATING EXPENSES	\$ 362,249	\$ 372,903

STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY

	For the Years Ended December 31,	
SCHEDULE 3	2010	2009
SCHEDULE 3		
REPAIRS AND MAINTENANCE		
Elevator	\$ 11,372	\$ 19,481
Plumbing	5,298	_
HVAC	2,909	_
Intercom, Alarm and Security System	4,430	3,401
Sprinkler	2,210	3,030
Gym	1,556	_
Miscellaneous Interior	11,104	4,345
Doors and Floors	5,740	381
Miscellaneous Exterior	_	2,288
Permits and Inspections	2,891	2,900
Exterminating	1,437	2,095
Cleaning	5,719	1,522
Landscaping	5,000	3,760
Building Supplies and Janitorial Equipment	<u>11,661</u>	<u>10,521</u>
TOTAL REPAIRS AND MAINTENANCE	<u>\$ 71,327</u>	<u>\$ 53,724</u>
SCHEDULE 4		
TAXES		
New York City Real Estate Taxes	\$ 264	\$ 261
New York State and City Corporation Taxes (Note 2G)	821	936
TOTAL TAXES	<u>\$ 1,085</u>	<u>\$ 1,197</u>
SCHEDULE 5		
MAJOR REPAIRS AND REPLACEMENTS		
Entrance Gate Replacement	\$ 18,781	\$ -
Laundry Room Door Replacement	2,504	·
TOTAL MAJOR REPAIRS AND		
REPLACEMENTS	<u>\$ 21,285</u>	<u>\$</u>

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2010</u>	2009	
Net Surplus	\$ 157,709	\$ 206,600	
Adjustments to Reconcile Net Surplus to Net Cash Provided by Operating Activities:			
Depreciation (Increase) Decrease in Accounts Receivable (Increase) Decrease in Prepaid Expenses Increase (Decrease) in Accounts Payable and Accrued	11,851 (14,710) 3,579	10,746 7,235 (708)	
Expenses Increase (Decrease) in Prepaid Common Charges	18,390 <u>677</u>	(5,349) (987)	
Total Adjustments	<u>19,787</u>	10,937	
Net Cash Provided by Operating Activities	<u>177,496</u>	217,537	
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) Decrease in Mortgage Defeasance Fund Purchases of Equipment and Fixtures	(62,143)	(67,325) (5,527)	
Net Cash (Used) by Investing Activities	(62,143)	(72,852)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Amortization of Mortgage Payable	(6,566)	(6,617)	
Net Cash (Used) by Financing Activities	(6,566)	(6,617)	
Net Increase in Cash and Equivalents	108,787	138,068	
Cash and Equivalents, Beginning	178,457	40,389	
Cash and Equivalents, Ending	<u>\$ 287,244</u>	<u>\$ 178,457</u>	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash Paid During the Year: Corporation Taxes Interest	\$ 821 \$ 17,016	\$ – \$ 16,967	

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

NOTE 1 – THE ASSOCIATION

Sample Condominium (the "Association") is a statutory condominium organization organized as an unincorporated association for the purposes of maintaining and preserving the premises located at ### Street, Rockaway Park, New York. The Association began operations, officially, on September 1, 2006. The Association consists of 93 residential units, including a unit owned by the Association and occupied by the superintendent.

Under condominium ownership, each unit owner possesses title to his unit and is entitled to exclusive use of it. In addition, each unit owner has an undivided interest (a percentage) as set forth in the Public Offering Statement in the common elements of the condominium. The financial statements do not include the cost of the individual units and the common elements of the condominium, except for units owned by the Association.

Real estate taxes and mortgages applicable to the individual units are independently billed to and paid by each unit owner. These financial statements do not reflect such expenditures.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis, in which income is recognized when earned and expenses are recognized when incurred.

B. Cash and Equivalents

For purpose of the statement of cash flows, the Association considers all highly liquid operating (undesignated) instruments with maturity of three months or less to be cash equivalents.

C. Recognition of Assets

The Association adopted the following accounting principles which are stated in the audit and accounting guide for Common Interest Realty Associations (CIRA) issued by the American Institute of Certified Public Accountants. These principles are described as the prevalent industry practices followed by condominiums for recognizing common real property as assets.

Real property and common areas acquired from the developer and subsequent major repairs or improvements to such property are not recorded in the Association's financial statements as assets because those properties are owned by the individual unit owners in common and not by the Association. Personal property assets are recorded at cost and are depreciated over the useful life of the assets.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Recognition of Assets (Continued)

In May 2007, the Association acquired Unit 101 (to be used as a superintendent's apartment) from the developer at a cost of \$250,000. (See Note 5.) The unit is carried at cost and is depreciated using the straight-line method over twenty-seven and one-half years.

D. Capital Improvements

Capital improvements to the building and its components which are directly associated with the units will be recognized as nonoperating expenses for income tax purposes and for financial reporting purposes. Capital improvements not directly associated with the units and personal property acquired, if any, will be capitalized for both income tax purposes and financial reporting purposes.

E. Common Charges/Accounts Receivable

Unit owners are subject to monthly common charges to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess common charges at year end are retained by the Association for use in future years. Effective July 1, 2008, the Board of Managers implemented a 25% increase in common charges to fund the Association's prior year deficit and to accommodate rising operating costs. There were no increases in common charges in 2009 and 2010.

For 2011, the Board of Managers approved a 10% decrease in common charges.

Accounts receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and in some instances place liens on the units of members whose common charges are unreasonably delinquent. The Association considers all unit owners' receivables at the balance sheet date to be collectible. Accordingly, no allowance for doubtful accounts is required. If any receivables become uncollectible, they will be charged to operations when that determination is made.

F. Members' Initial Working Capital Contributions

Upon the initial acquisition of title to a unit, each member of the Association is required to make a one-time, non-refundable working capital contribution in the amount of \$450. The amounts in the working capital fund may be held or used at any time for working capital, to make repairs or for such appropriate purposes as determined by the Board of Managers. These contributions have been recorded as capital directly to the working capital fund in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Income and Corporation Taxes

Certain condominiums may qualify as a Ahomeowners association" within the meaning of IRS Code Section 528 and, therefore, can elect to be exempt from income tax on common charges. In order for a condominium to qualify as a "homeowners association" under Internal Revenue Code Section 528(c), the condominium must qualify under, among others, the "Substantially Residential Test." Under this test, at least 85% of the square footage of all the units must be used for residential purposes. The Association meets this test and, accordingly, is eligible to make the election to qualify as a "homeowners association" and file Form 1120H as its annual income tax return. The filing of this tax return excludes from taxation all income derived from membership activities. Net non-membership income would be subject to a flat tax rate of 30%. For a regular corporation, however, tax rates begin at 15% on the entire net income. For the year ended December 31, 2010, the Association elected taxation as a homeowners association.

The Association is subject to New York State Franchise and New York City General Corporation taxes that are calculated on the greater of its capital base or income base.

Unit owners own legal title to their units. As such, the unit owners qualify to deduct New York City real estate taxes, which are billed separately to them. They will also qualify to deduct interest, within certain limitations, on debt used to acquire, construct or substantially improve any qualified residence. A qualified residence means (i) a principal residence and (ii) one secondary residence selected by the Unit Owner.

H. 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Concentration of Credit Risk

The Association maintains its cash in bank accounts, which, at times, may exceed federally insured limits. The Association has not experienced any losses in this account and believes it is not exposed to any significant credit risk on cash and equivalents.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The Board also has not developed a plan to fund those needs. When funds are required to meet future needs for major repairs and replacements, the Association has the option to borrow, increase common charge assessments, pass special assessments or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE 4 – UNIT OWNERS' COST BASIS

Unit owners in a condominium may add to the cost basis of their units when the Board of Managers levies a special assessment for the completion of major repairs and replacements or designates a portion of common charges to be used for amortization of mortgage principal.

Commencing January 1, 2009, the Board of Managers designated \$10,600 of monthly common charges for the following purposes: \$5,000 is to be transferred to the Association's capital reserve account to fund future major repairs and replacements, and \$5,600 is to be remitted to a mortgage defeasance account to accumulate funds to pay off the Association's mortgage on the superintendent's unit.

NOTE 5 – REAL ESTATE TAX ABATEMENTS/PERSONAL EXEMPTIONS

As a result of recently enacted revisions to the New York State Real Property Tax Law, the City of New York has afforded a partial abatement of real estate taxes to owners of certain cooperative and condominium properties. The abatement program was created by law to partially reduce the disparate tax burden shouldered by owners of cooperative and condominium units in New York City in comparison to that currently assumed by the owners of one, two and three family homes. On June 11, 2008, legislation was signed extending this abatement through June 30, 2012.

Abatements are based upon the assessed valuation of the land and building as multiplied by the current tax rate less any other abatements. Unit owners may also be eligible for certain personal exemptions (senior citizen, disability, veteran, and STAR) in addition to the abatement, which applies to the apartment alone. The portion of the abatement, granted on a tax bill when the tax is due to be paid, serves to directly reduce the amount of real estate tax payable by unit owners.

NOTE 6 – MORTAGE PAYABLE

In May 2007, the Association obtained a first mortgage from Wachovia Bank to purchase the superintendent's unit. The mortgage in the amount of \$250,000 is payable at the annual fixed interest rate of 7.18% for a term of five years with monthly payments of \$1,965. The mortgage matures on May 1, 2012 when the entire unpaid principal shall be due and payable.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2010

NOTE 7 – SUBSEQUENT EVENTS

The Association has evaluated its subsequent events through the date that the accompanying financial statements were issued. The Association had no material subsequent events requiring disclosure.

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- Certified Public Accountants —

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REPORT ON SUPPLEMENTARY DATA

To the Board of Managers and Unit Owners of Sample Condominium

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Sample Condominium for the years ended December 31, 2010 and 2009 taken as a whole. The supplementary data contained on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the audit procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Greenberg & Brennan, CPA's, P.C.

GREENBERG & BRENNAN, CPA's, P.C. April 21, 2011

STATEMENTS OF OPERATIONS AND RELATED BUDGETS

	For the Year Ended December 31,			Next Year
	2010	2010	2010	2011
	Actual	Budget	Actual	Budget
		(Unaudited)		(Unaudited)
INCOME				
Common Charges	\$750,754	\$750,756	\$750,754	\$675,680
Late Charges and Miscellaneous	24,049	20,000	19,812	14,000
Laundry	1,434	1,000	<u>15</u>	<u>-</u>
Less: Common Charges Allocated to Reserve Fund (Note 4) Common Charges Allocated to Mortgage Defeasance Fund	67,200	67,200	130,000	16,500
(Note 4)	70,000	60,000	61,600	60,000
TOTAL INCOME	639,037	644,556	578,981	613,180
EXPENSES				
Concierge Service	95,189	100,000	89,178	96,000
Payroll	76,874	82,680	85,064	85,000
Payroll Taxes and Other Payroll				
Related Costs	13,900	14,025	15,716	14,500
Heating	88,344	90,000	73,252	90,000
Electricity and Gas	71,846	90,000	66,892	75,700
Water and Sewer	26,750	28,000	32,147	36,000
Repairs and Maintenance	53,724	56,750	71,327	62,000
Loan Servicing	23,592	23,584	23,541	23,584
Building Insurance	55,312	82,500	58,432	64,400
Management Fees	33,953	35,648	35,650	37,435
Professional Fees	13,601	15,400	15,256	15,000
Administrative Expenses	11,922	18,500	19,987	12,000
Taxes	1,197	1,300	1,085	1,550
TOTAL EXPENSES	566,204	638,387	587,527	613,169
OPERATING SURPLUS (DEFICIT)	\$ 72,833	<u>\$ 6,169</u>	<u>\$ (8,546)</u>	<u>\$ 11</u>

See Independent Auditors' Report on Supplementary Data.

We are precluded from expressing an opinion on the portion of this exhibit that reflects budgetary projections due to the fact that these projections are based upon assumptions concerning future events.