

**SAMPLE COOPERATIVE CORP.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

SAMPLE COOPERATIVE CORP.

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A PRACTICE LIMITED TO  
COOPERATIVES AND CONDOMINIUMS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
Sample Cooperative Corp.

We have audited the accompanying balance sheets of Sample Cooperative Corp. (the "Corporation") as of December 31, 2010 and 2009 and the related statements of operations, changes in accumulated deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Corporation'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 Cooperative Corp. 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 5 to the financial statements, the Corporation's governing documents do not require that funds be accumulated for future major repairs and replacements. As such, the Corporation 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.  
March 28, 2011

SAMPLE COOPERATIVE CORP.

BALANCE SHEETS

**ASSETS**

	December 31,	
	2010	2009
<b>Current Assets</b>		
Cash and Equivalents: <i>(Note 2B)</i>		
Operating Account	\$ 137,600	\$ 87,355
Operating Account – Rental Apartments	59,435	31,581
Capital Assessment Account	79,363	71,126
Money Market Account	48,532	48,604
Total Cash and Equivalents	324,930	238,666
Accounts Receivable:		
Shareholders <i>(Note 2F)</i>	4,389	2,900
Rental Tenants	1,850	–
Other Receivables	2,493	2,622
Total Accounts Receivable	8,732	5,522
Prepaid Expenses:		
Insurance	1,796	1,897
Corporation Taxes	364	513
Other	–	125
Total Prepaid Expenses	2,160	2,535
<b>Total Current Assets</b>	<b>335,822</b>	<b>246,723</b>
<b>Real Estate <i>(Note 2D)</i></b>		
Land	723,276	723,276
Building	4,098,567	4,098,567
Building Improvements	537,366	537,366
Machinery and Equipment	13,252	13,252
	5,372,461	5,372,461
<i>Less: Accumulated Depreciation</i>	<i>2,557,493</i>	<i>2,445,821</i>
<b>Real Estate – Net of Accumulated Depreciation</b>	<b>2,814,968</b>	<b>2,926,640</b>
<b>Other Assets</b>		
Deferred Mortgage Costs – Net of Accumulated Amortization <i>(Note 2E)</i>	39,658	44,830
Investment in NCB Stock <i>(Note 3)</i>	–	19,872
Security Deposits	7,421	14,573
<b>Total Other Assets</b>	<b>47,079</b>	<b>79,275</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,197,869</b>	<b>\$ 3,252,638</b>

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

BALANCE SHEETS

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	December 31,	
	2010	2009
<b>Current Liabilities</b>		
Accounts Payable and Accrued Expenses	\$ 33,140	\$ 28,400
NYC Real Estate Tax Abatements/Exemptions Liability <i>(Note 8)</i>	20,308	18,535
Security Deposits Payable	7,421	14,573
Prepaid Maintenance	3,552	—
Total Current Liabilities	64,421	61,508
<b>Long-Term Liabilities</b>		
Mortgage Payable <i>(Note 3)</i>	1,951,338	1,974,655
Total Long-Term Liabilities	1,951,338	1,974,655
<b>Total Liabilities</b>	2,015,759	2,036,163
<b>Shareholders' Equity</b>		
Capital Stock – Par Value \$1 Per Share Authorized 15,500 Shares 13,608 Shares Issued and 12,756 Shares Outstanding	12,756	12,756
Paid-In Capital <i>(Note 2G)</i>	3,786,390	3,763,073
<i>Less:</i> Treasury Stock, at Coast <i>(Note 9)</i>	75,537	75,537
	3,710,853	3,687,536
<i>Less:</i> Accumulated Deficit	2,541,499	2,483,817
Total Shareholders' Equity	1,182,110	1,216,475
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 3,197,869</b>	<b>\$ 3,252,638</b>

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT

	For the Years Ended December 31,	
	<u>2010</u>	<u>2009</u>
<b>INCOME</b>		
Maintenance Charges <i>(Note 2F)</i>	\$ 527,692	\$ 527,692
Assessment – NYC Real Estate Tax Abatements <i>(Note 8)</i>	46,051	41,239
<i>Less:</i> NYC Real Estate Tax Abatements/Exemptions <i>(Note 8)</i>	38,100	34,793
Contributed Capital – Mortgage Amortization <i>(Note 2G)</i>	<u>23,317</u>	<u>21,889</u>
	<u>512,326</u>	<u>512,249</u>
Rental Income – Professional Units <i>(Note 10)</i>	35,859	35,859
Rental Income – Treasury Stock Apartments <i>(Note 9)</i>	64,750	60,272
Sublet Fees	11,381	9,441
Laundry Income	6,134	6,000
Storage Fees	3,484	3,224
Late Fees	1,450	1,250
Apartment Transfer Fees <i>(Note 4)</i>	14,063	–
Interest and Dividends	1,162	1,406
Miscellaneous Income	<u>5,118</u>	<u>1,186</u>
<b>TOTAL INCOME</b>	<u>655,727</u>	<u>630,887</u>
<b>COST OF OPERATIONS</b>		
Operating Expenses – <i>Schedule 1</i>	140,787	113,804
Repairs and Maintenance – <i>Schedule 2</i>	40,154	48,941
Administrative Expenses – <i>Schedule 3</i>	54,546	59,593
Taxes – <i>Schedule 4</i>	243,120	221,678
Mortgage Interest <i>(Note 3)</i>	<u>124,329</u>	<u>125,765</u>
<b>TOTAL COST OF OPERATIONS</b>	<u>602,936</u>	<u>569,781</u>
<b>Operating Surplus Before Depreciation, Amortization and Other Non-Operating Items</b>	52,791	61,106
<i>Less:</i> Depreciation <i>(Note 2D)</i>	111,672	109,483
Amortization of Deferred Mortgage Costs <i>(Note 2E)</i>	5,172	5,172
<i>Add:</i> Real Estate Taxes – Refund <i>(Note 11)</i>	1,309	–
– Legal Fee <i>(Note 11)</i>	(2,092)	–
Security Deposits Retained	7,154	–
Prior Year Adjustment	<u>–</u>	<u>6,788</u>
<b>NET (DEFICIT) FOR THE YEAR</b>	(57,682)	(46,761)
<b>Accumulated Deficit – January 1</b>	<u>(2,483,817)</u>	<u>(2,437,056)</u>
<b>Accumulated Deficit – December 31</b>	<u>\$(2,541,499)</u>	<u>\$(2,483,817)</u>

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT

	For the Years Ended December 31,	
	<u>2010</u>	<u>2009</u>
<b>SCHEDULE 1</b>		
<b>OPERATING EXPENSES</b>		
<b>Payroll and Related</b>		
Payroll	\$ 7,800	\$ 7,800
Payroll Taxes	770	801
Workers' Compensation and Disability Insurance	254	1,220
Other Payroll Costs	<u>987</u>	<u>980</u>
<b>Total Payroll and Related</b>	<u>9,811</u>	<u>10,801</u>
<b>Utilities</b>		
Heating	30,750	19,303
Electric and Gas	68,574	62,400
Water and Sewer	<u>31,652</u>	<u>21,300</u>
<b>Total Utilities</b>	<u>130,976</u>	<u>103,003</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>\$ 140,787</u>	<u>\$ 113,804</u>
<b>SCHEDULE 2</b>		
<b>REPAIRS AND MAINTENANCE</b>		
Building Supplies	\$ 2,930	\$ 2,623
Elevator	6,918	4,516
Plumbing	2,765	5,454
Heating	267	4,115
Water Treatment	4,328	4,192
Painting and Plastering	4,521	6,001
Intercom	683	1,524
Building Cleaning	935	8,051
Sprinkler System	-	414
Landscaping	4,319	4,547
Exterminating	831	829
Permits and Inspections	8,666	2,648
Other Interior Repairs	110	4,667
Other Exterior Repairs	3,511	135
<i>Less:</i> Repairs Billed Back to Shareholders and Insurance Claims	<u>630</u>	<u>775</u>
<b>TOTAL REPAIRS AND MAINTENANCE</b>	<u>\$ 40,154</u>	<u>\$ 48,941</u>

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

STATEMENTS OF OPERATIONS AND CHANGES IN ACCUMULATED DEFICIT

	For the Years Ended December 31,	
	<u>2010</u>	<u>2009</u>
<b>SCHEDULE 3</b>		
<b>ADMINISTRATIVE EXPENSES</b>		
Building Insurance	\$ 21,814	\$ 24,503
Management Fees	22,000	22,000
Legal Fees	425	150
Auditing	6,500	6,500
Other Professional Fees	–	1,700
Leasing Commission	–	1,700
Telephone	1,430	960
Other Administrative Expenses	<u>2,377</u>	<u>2,080</u>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ <u>54,546</u></b>	<b>\$ <u>59,593</u></b>
<b>SCHEDULE 4</b>		
<b>TAXES</b>		
New York State and New York City Corporation Taxes ( <i>Note 7</i> )	\$ 2,312	\$ 2,207
NYC Real Estate Taxes – Net of NYC Real Estate Tax Abatements/Exemptions	<u>240,808</u>	<u>219,471</u>
<b>TOTAL TAXES</b>	<b>\$ <u>243,120</u></b>	<b>\$ <u>221,678</u></b>

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (Deficit)	\$ (57,682)	\$ (46,761)
Adjustments to Reconcile Net (Deficit) to Net Cash Provided by Operating Activities:		
Depreciation	111,672	109,483
Amortization of Deferred Mortgage Costs	5,172	5,172
Decrease (Increase) in Accounts Receivable	(3,210)	(1,564)
Decrease (Increase) in Prepaid Expenses	375	(546)
Decrease (Increase) in Security Deposits	7,152	136
(Decrease) Increase in Accounts Payable and Accrued Expenses	6,513	(9,400)
(Decrease) Increase in Security Deposits Payable	(7,152)	(136)
(Decrease) Increase in Prepaid Maintenance	3,552	(950)
Total Adjustments	124,074	102,195
<b>Net Cash Provided by Operating Activities</b>	<b>66,392</b>	<b>55,434</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital Expenditures – Building Improvements	–	(31,985)
Decrease (Increase) in NCB Stock	19,872	128
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>19,872</b>	<b>(31,857)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal Payments of Long-Term Debt	(23,317)	(21,889)
Contributed Capital – Mortgage Amortization	23,317	21,889
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>–</b>	<b>–</b>
Net Increase in Cash and Equivalents	86,264	23,577
<b>Cash and Equivalents, Beginning</b>	<b>238,666</b>	<b>215,089</b>
<b>Cash and Equivalents, Ending</b>	<b>\$ 324,930</b>	<b>\$ 238,666</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year:		
Corporation Taxes	\$ 2,163	\$ 3,145
Interest	\$ 124,455	\$ 125,883

*See Independent Auditors' Report and Notes to Financial Statements.*

SAMPLE COOPERATIVE CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 1 B NATURE OF ORGANIZATION**

Sample Cooperative Corp. (the "Corporation") is a cooperative housing corporation incorporated in New York State on June 23, 1987. The Corporation owns the land and building located at ### Street, New York, NY. The Cooperative consists of 54 residential apartments, of which three are owned by the Corporation, four professional units, and a superintendent's apartment. Pursuant to Section 216(b)(1) of the Internal Revenue Code (the "Code"), the purpose of the Corporation is to provide maintenance, preservation and control of the common areas of the land and building. For 2010 and 2009 the Corporation qualified as a cooperative housing corporation as defined by Section 216 of the Code.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Basis of Presentation**

The accrual method of accounting is followed in which income is recognized when earned and expenses are recognized when incurred.

**B) Cash and Equivalents**

For purposes of the statement of cash flows, the Corporation considers all highly liquid investments purchased with maturity of approximately three months or less to be cash equivalents.

**C) Estimates**

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America. As such, the preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

**D) Real Estate and Depreciation**

Real estate is stated at cost less accumulated depreciation without consideration of net realizable value. Depreciation for the building and building improvements is calculated on the straight-line method over their estimated useful lives.

**E) Amortization**

Deferred mortgage costs are amortized on the straight-line basis over the term of the Corporation's mortgage.

SAMPLE COOPERATIVE CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**F) Shareholders' Maintenance and Receivables**

Shareholders are subject to monthly maintenance charges to provide funds for the Corporation's operating expenses, future capital acquisitions, and repairs and replacements. Any excess maintenance charges at year-end are retained by the Corporation for use in future years.

Shareholders' receivables at the balance sheet date represent maintenance fees due from shareholders. The Corporation's policy is to retain legal counsel and place liens on the shares of stock of shareholders whose maintenance charges are delinquent. The Corporation considers all receivables as of 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.

**G) Contributions to Paid-In Capital**

The Corporation treats special assessments used for the acquisition of capital improvements and maintenance charges used for amortization of mortgage principal as contributions to Paid-In Capital. These contributions increase the cost basis of each shareholder's apartment.

**NOTE 3 – MORTGAGE PAYABLE**

**A) First Mortgage**

On September 18, 2008, the Corporation refinanced its first mortgage with National Consumer Cooperative Bank ("NCB") in the amount of \$2,000,000. The mortgage is payable at the annual interest rate of 6.25% for a term of ten years with monthly payments of \$12,314 based on a 30-year amortization schedule. The lender is not escrowing for real estate taxes. Any prepayments made during the term of the loan are subject to a prepayment penalty.

Scheduled principal payments on the mortgage note over the next five years are as follows:

2011	\$ 24,838
2012	26,109
2013	28,162
2014	30,024
2015	31,983

**NOTE 3 –MORTGAGE PAYABLE** *(Continued)*

**B) Investment in NCB Stock**

At the closing of the mortgage, the Corporation was required to purchase NCB Class B1 stock in the amount of \$20,000 in order to meet the bank's stock purchase requirement, which is 1% of the principal amount of the mortgage. NCB Class B1 stock is redeemable at the option of the bank. As of December 31, 2010, the NCB Class B1 stock has been redeemed.

SAMPLE COOPERATIVE CORP.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2010

The shares of NCB stock, which are non-negotiable and without market value, maintain membership for the Corporation in the bank and pay annual dividends in both cash and NCB B2 stock. NCB currently accepts Class B2 stock in satisfaction of their stock purchase requirement on refinancing with the bank. The shares maintain membership for the Corporation in NCB and its eligibility for any benefits that may accrue in the future.

Since Class B2 stock is non-negotiable, non-transferable and without market value, B2 stock dividends are not being recognized in the accompanying financial statements.

**NOTE 4 – APARTMENT TRANSFER FEES (“FLIP TAX”)**

Sellers of the Corporation’s common stock are required to pay a 2.5% fee to the Corporation at the time of transfer, based on the purchase price paid in consideration for the shares of stock allocated to the apartment to be sold. The proceeds derived from such fees are recognized as membership income to the Corporation.

**NOTE 5 – FUTURE MAJOR REPAIRS AND REPLACEMENTS**

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. The board of directors has also not developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Corporation has the right to increase regular assessments, pass special assessments, utilize the reserve fund or delay major repairs and replacements until funds are available. The effect of future assessments has not been determined at this time.

**NOTE 6 – CONCENTRATION OF CREDIT RISK**

The Corporation maintains its cash accounts at financial institutions, in amounts which at times may exceed insured limits. The Corporation has not experienced any losses in such accounts and believes it is not subject to any significant credit risk thereon. The Corporation monitors its cash and investment balances regularly.

The Corporation receives approximately 27% of its maintenance charges from apartments owned by an investor. The investor is current in paying his monthly maintenance.

**NOTE 7 – CORPORATION TAXES**

During 1996, in a case involving a conventional cooperative, the United States Tax Court ruled that Subchapter T of the Internal Revenue Code, not Section 277, applies to housing cooperatives that qualify under Section 216 of the Internal Revenue Code. Subchapter T requires allocations of patronage and non-patronage source income.

SAMPLE COOPERATIVE CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

The Corporation is qualified to prepare its tax returns pursuant to the provisions of Subchapter T of the Internal Revenue Code. Subchapter T provides that expenses attributable to the generation of patronage income, i.e., income from business done with or for patrons (tenant cooperators), are deductible only to the extent of patronage income. The Corporation believes that all of its income for the years ended December 31, 2010 and 2009 is patronage income within the meaning of Subchapter T.

For the years 2010 and 2009 there were net losses after depreciation and amortization, and no provision has been made for federal income taxes. New York State and City taxes were based upon the Corporation's net capital.

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.

**NOTE 8 – REAL ESTATE TAX ABATEMENTS/PERSONAL EXEMPTIONS**

As a result of 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 borne 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. Shareholders may also be eligible for certain personal exemptions (senior citizen, disability, veteran, and STAR) in addition to the co-op abatement, which applies to the apartment alone.

The portion of the abatement, granted when the tax is due to be paid, serves to directly reduce the amount of real estate tax payable. By law, the abatements and exemptions are to be returned to the eligible shareholders. It is the intention of management to comply with this law by issuing credits against maintenance.

In 2010 and 2009, the Corporation passed special assessments approximately equal to real estate tax abatements to accommodate rising operating costs without the necessity of substantial increases in maintenance charges.

**NOTE 9 – TREASURY STOCK**

As of December 31, 2010 and 2009, 832 shares of Treasury Stock were held by the Corporation representing three apartments with an aggregate cost basis of \$76,389. The Corporation is currently leasing the apartments.

SAMPLE COOPERATIVE CORP.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010

**NOTE 10 – PROFESSIONAL OFFICES**

The leases for units 1A, 1C, 1D and 1E have an initial term of forty-nine years commencing on the date of the closing title to the apartment corporation under the offering plan. The leases are renewable for an additional term of forty-nine years provided the proprietary leases of the Corporation are in effect. The leases will terminate on the same date all proprietary leases expire. The leases are subject to the rights of lessees under the professional leases currently in effect for the units.

**NOTE 11 – REAL ESTATE TAX REDUCTION**

The Board of Directors has been successful in obtaining a reduction in real estate tax assessment for the tax year 2009/2010, which will yield real estate tax savings through the tax year 2014/2015. Relating to this, in 2010 the Corporation received a refund in the amount of \$1,309 and incurred legal (certiorari) fees of \$2,092 (based on a percentage of the refund and estimated future tax savings).

**NOTE 12 – SUBSEQUENT EVENTS**

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