

LARCHMONT HILLS OWNERS CORP.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



BLOOM AND STREIT LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors and Stockholders
LARCHMONT HILLS OWNERS CORP.**

We have audited the accompanying balance sheets of LARCHMONT HILLS OWNERS CORP. as of December 31, 2010 and 2009, and the related statements of income (loss), retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 LARCHMONT HILLS OWNERS 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 8, the cooperative has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented information about the estimates of future costs of major repairs and replacements that will be required in the future that accounting principles generally accepted in the United States of America has determined is required to supplement, although not required to be a part of, the basic financial statements.

BLOOM AND STREIT LLP
Certified Public Accountants
February 24, 2011

LARCHMONT HILLS OWNERS CORP.

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LARCHMONT HILLS OWNERS CORP.

Balance Sheets

As of December 31,

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash in Operating Account	3,115	7,399
Cash in Bank - Reserve Fund	79,814	52,809
Tenants' Accounts Receivable	26	853
Mortgagee Escrow Deposits	108,566	101,984
Prepaid Expenses	5,391	5,362
Total	<u>196,911</u>	<u>168,407</u>
Less: Allocated to Funds and Deposits (see below)	<u>(79,814)</u>	<u>(52,809)</u>
Total Current Assets	<u>117,097</u>	<u>115,599</u>
FUNDS		
Contingency Reserve:		
Allocated from Current Assets (see above)	<u>79,814</u>	<u>52,809</u>
PROPERTY AND EQUIPMENT -		
Net Book Value	<u>1,750,594</u>	<u>1,895,528</u>
OTHER ASSETS		
Investment In National Cooperative Bank	1,397	2,000
Deferred Mortgage Financing Expenses	10,985	16,053
Total Other Assets	<u>12,382</u>	<u>18,053</u>
TOTAL ASSETS	<u>1,959,887</u>	<u>2,081,988</u>

	<u>2010</u>	<u>2009</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITES		
Accounts Payable	44,793	41,876
Accrued Interest	9,662	9,800
Star Credit Due to Stockholders	13,743	13,935
Rents Received in Advance	7,881	7,824
Exchanges and Security Deposits Payable	6,405	3,055
Mortgage Amortization Payments due within one year	<u>29,212</u>	<u>27,539</u>
Total Current Liabilities	<u>111,695</u>	<u>104,030</u>
LONG-TERM LIABILITIES		
First Mortgage Payable - Net of Payments due within one year	<u>1,895,355</u>	<u>1,924,566</u>
STOCKHOLDERS' EQUITY		
Common Stock \$1.00 par value; 36,805 shares authorized and issued, 36,620 shares outstanding	36,805	36,805
Paid-in Capital	3,493,590	3,493,590
Retained Earnings (Deficit)	<u>(3,568,238)</u>	<u>(3,467,684)</u>
Total	<u>(37,844)</u>	<u>62,711</u>
Less: Treasury Stock - 185 Shares	<u>(9,319)</u>	<u>(9,319)</u>
Total Stockholders' Equity	<u>(47,163)</u>	<u>53,392</u>
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	<u>1,959,887</u>	<u>2,081,988</u>

See accompanying notes and auditors' report

LARCHMONT HILLS OWNERS CORP.

Statements of Income (Loss)

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
INCOME		
Carrying Charges	766,750	744,418
Rental Income	8,250	6,363
Parking Income	7,260	6,600
Laundry Room Income	6,600	6,600
Storage Units	13,500	13,475
Interest Income	1,601	1,705
Miscellaneous Income	800	570
Total Income	<u>804,762</u>	<u>779,731</u>
EXPENSES		
Administrative Expenses	47,846	50,707
Maintenance Expenses	175,076	193,566
Utilities Expenses	130,151	105,074
Taxes and Insurance	287,735	284,040
Financial Expenses	114,507	116,092
Total Expenses Before Depreciation and Amortization	<u>755,315</u>	<u>749,479</u>
NET INCOME BEFORE DEPRECIATION AND AMORTIZATION	49,447	30,251
Depreciation and Amortization of Mortgage Financing Expenses and Lease Commissions	<u>(150,002)</u>	<u>(150,219)</u>
NET INCOME (LOSS) FOR THE YEAR	<u>(100,555)</u>	<u>(119,967)</u>

See accompanying notes and auditors' report

LARCHMONT HILLS OWNERS CORP.

Statements of Retained Earnings (Deficit)

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
RETAINED EARNINGS (DEFICIT) - Beginning of Year	(3,467,684)	(3,347,716)
Net Income (Loss) for the Year	<u>(100,555)</u>	<u>(119,967)</u>
RETAINED EARNINGS (DEFICIT) - End of Year	<u><u>(3,568,238)</u></u>	<u><u>(3,467,684)</u></u>

See accompanying notes and auditors' report

LARCHMONT HILLS OWNERS CORP.

Statements of Cash Flows

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Net Income (loss)	(100,555)	(119,967)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and Amortization	150,002	150,219
Revenue allocated to financing activities	(27,539)	(25,962)
Decrease (Increase) in operating assets:		
Tenants' Accounts Receivable	828	(725)
Mortgagee Escrow Deposits	(6,582)	(4,398)
Prepaid Expenses	(28)	(49)
Increase (Decrease) in operating liabilities:		
Accounts Payable	2,917	(6,071)
Accrued Interest Payable	(138)	(130)
Rents Received in Advance	57	(1,338)
Exchanges and Security Deposits Payable	3,158	(1,138)
Net cash provided (used) by operating activities	<u>22,118</u>	<u>(9,560)</u>
Cash Flows From Investing Activities		
Net cash provided (used) by investing activities	<u>0</u>	<u>0</u>
Cash Flows From Financing Activities		
Portion of Carrying Charges applied to Amortization of Mortgage	27,539	25,962
Mortgage Financing Costs	603	0
Amortization Payments on Mortgage	(27,539)	(25,962)
Net cash provided (used) by financing activities	<u>603</u>	<u>0</u>
Increase (Decrease) in Cash and Cash Equivalents (carryforward)	22,721	(9,560)

See accompanying notes and auditors' report

LARCHMONT HILLS OWNERS CORP.

Statements of Cash Flows

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
Increase (Decrease) in Cash and Cash Equivalents (brought forward)	22,721	(9,560)
Cash and Cash Equivalents at Beginning of Year	<u>60,208</u>	<u>69,768</u>
Cash and Cash Equivalents at End of Year (see below)	<u><u>82,929</u></u>	<u><u>60,208</u></u>
Represented by:		
Cash in Operating Account	3,115	7,399
Cash in Bank - Reserve Account	<u>79,814</u>	<u>52,809</u>
Cash and Cash Equivalents (as above)	<u><u>82,929</u></u>	<u><u>60,208</u></u>
Supplemental Disclosure:		
Interest Paid	<u><u>114,369</u></u>	<u><u>115,961</u></u>

See accompanying notes and auditors' report

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 1

Organization

LARCHMONT HILLS OWNERS CORP., A Cooperative Housing Corporation (the Corporation), was incorporated in the State of New York in February 1981. The corporation owns and operates an apartment building located at 17 North Chatsworth Avenue, Larchmont, New York, consisting of 80 residential units. The primary purpose of the corporation is to manage the operations of the building and maintain the common elements.

Note 2

Summary of Significant Accounting Policies

The financial statements have been presented in accordance with the accounting principles prescribed by the audit and accounting guide for common interest realty associations issued by the American Institute of Certified Public Accountants. The guide describes conditions and procedures unique to the industry (including cooperative and condominium housing corporations) and illustrates the form and content of the financial statements of common interest realty associations as well as informative disclosures relating to such statements. In addition, the guide requires that all revenues from tenant-stockholders, including maintenance charges and special assessments, be recognized as revenue in the statements of income (loss).

Property and equipment is being carried at cost. Depreciation of the building is being computed by the straight line method over an estimated useful life of 35 years. Building improvements and equipment are depreciated on the straight line method over estimated lives that range from 5 to 27.5 years.

The cooperative accounts for certain revenue items differently for financial reporting and income tax purposes. The principal differences are permanent in nature and relate to any portion of maintenance charges and special assessments allocated for mortgage amortization and capital improvements which are being accounted for as contributions to additional paid-in capital for income tax purposes whereas such items are recognized as revenue for financial reporting.

For purposes of the statements of cash flows, the cooperative considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 2

Summary of Significant Accounting Policies - continued

The corporation has investments in marketable equity securities which are classified as available for sale securities. Available for sale securities are reported at fair value and include securities not classified as held to maturity or trading securities. It is the corporation's policy to record these securities at current market prices with any unrealized gains and losses reported as a component of equity. Realized gains and losses are reported as a component of the statements of operations.

The cooperative maintains various bank and money market accounts that at times may exceed insured credit limits. The cooperative has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to such balances. However, should any of these institutions fail, the cooperative could suffer a loss.

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.

Tenant-stockholders are subject to monthly charges to provide funds for the cooperative's operating expenses, future capital acquisitions, and major repairs and replacements. Tenants' Accounts Receivable at the balance sheets date represent various fees due from tenant-stockholders. The cooperative's policy is to retain legal counsel and place liens on the shares of stock of tenant-stockholders whose assessments are delinquent. Any excess charges at year end are retained by the cooperative for use in the succeeding year.

Mortgage acquisition costs are being amortized over the life of the related mortgage using the straight line method.

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 3

Property and Equipment

Property and Equipment consists of the following:

	<u>2010</u>	<u>2009</u>
Land	843,700	843,700
Building	3,374,800	3,374,800
Building improvements	<u>1,363,743</u>	<u>1,363,743</u>
	5,582,243	5,582,243
Less: accumulated depreciation	<u>3,831,649</u>	<u>3,686,715</u>
Total Property and Equipment	<u>1,750,594</u>	<u>1,895,528</u>

Depreciation expense for the year ended December 31, 2010 and 2009 was \$144,934 and \$145,151, respectively.

Note 4

Mortgage Payable

On February 27, 2003, the corporation obtained a mortgage with NCB (National Cooperative Bank) in the amount of \$2,100,000. The mortgage, which is secured by the property, is payable in monthly installments of \$11,849, including interest at the rate of 5.83% per annum, based on a 35 year amortization period. The note matures on March 1, 2013, at which time a balloon payment of approximately \$1,843,000 is due. The mortgage requires the corporation to make monthly payments into an escrow account held by the mortgagee for real estate taxes.

In conjunction with refinancing, the corporation was required to purchase shares of NCCB's Class B1 and B2 stock. Class B1 shares earn a patronage dividend payable in cash and in Class B2 stock, as determined by NCCB. Class B1 shares are redeemable by NCCB upon satisfactory repayment of all loans made to or guaranteed by eligible customers. Class B2 shares are non-redeemable, non-transferable, and pay no dividends.

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 4 **Mortgage Payable - continued**

There were no patronage dividends paid during the year ended December 31, 2010 and December 31, 2009. At December 31, 2010 and 2009, the corporation owned 0 and 6.029 Class B1 shares, respectively. At December 31, 2010 and 2009, the corporation owns 13,971 class B2 shares.

The loan agreements also provide for a \$200,000 available line of credit. The interest rate is 1.5% over the lender's base rate. As of December 31, 2010, the line of credit had not been accessed.

Principal maturities of the mortgage are as follows:

2011	29,212
2012	30,666
2013 (including payoff)	1,864,689

As part of the aforementioned refinancings, the cooperative has paid closing costs of approximately \$51,000, which are being amortized over the life of the new mortgage.

Note 5 **Treasury Stock**

The corporation owns the title to unit 1E. The financial statement reflects the treasury stock at cost in the amount of \$9,319, which represents the arrears balance when the shares were acquired as well as legal fees and other costs incurred to acquire the shares.

Note 6 **Sponsor Ownership**

At both December 31, 2010 and December 31, 2009, the Sponsor owned eight (8) residential units, or approximately 10% of the total residential units. Carrying charges received from the Sponsor's residential units aggregated approximately \$88,000 and \$86,000 for the year ended December 31, 2010 and December 31, 2009 respectively. As of that date, the Sponsor was current in the payment of carrying charges.

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 7

Income Taxes

Federal income tax is computed pursuant to Subchapter T of the Internal Revenue Code. Under Subchapter T, income from non-patronage sources, such as interest and commercial rents, in excess of expenses properly attributable thereto may be subject to tax. The corporation believes that all of its income is patronage sourced. Accordingly, no provisions for taxes, if any, that could result from the application of Subchapter T to the corporation's income has been reflected in the accompanying financial statements. New York State Franchise tax is calculated by utilizing special tax rates available to cooperative housing corporations based on the corporation's capital base.

As of December 31, 2010, the cooperative has available net operating loss carryforwards to apply to future taxable income in the approximate amount of \$350,768. Unless used, these net operating losses are set to expire from 2018 through 2030.

In accordance with accounting rules for uncertainty in income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns, the cooperative's tax filings are subject to audit by various taxing authorities. The cooperative's federal and state income tax returns for the last three years remain open to examination. In evaluating its tax provisions and accruals, the cooperative believes that its estimates are appropriate based on current facts and circumstances.

Note 8

Future Major Repairs and Replacements

The cooperative 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 cooperative may borrow, utilize available cash, increase carrying 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.

LARCHMONT HILLS OWNERS CORP.

Notes to Financial Statements

December 31, 2010 and 2009

Note 9 Real Estate Taxes - Tax Abatements

The cooperative is entitled to and has received tax abatements on behalf of its stockholders from the State of New York during 2010 and 2009. The abatements, which include Star, Veterans, SCRIE and cooperative abatements (where applicable) are passed on to the stockholders by direct payment or as a credit against carrying charges. Any undistributed abatements as of the fiscal year end have been included on the Balance Sheets in Current Liabilities as Star Credit Due to Stockholders. As the abatements benefit the stockholders, the real estate tax expense reflected in these financial statements is gross of all the aforementioned tax abatements.

Note 10 Labor Agreement

Service employees of the cooperative are members of Local 32-E of the Service Employees International Union, A.F.L., C.I.O. Health and pension benefits provided to certain employees are governed and regulated by the terms of a collective bargaining agreement. Information as to the cooperative's portion of accumulated plan benefits and plan assets is not determinable. Under the Employee Retirement Income Security Act of 1974, as amended, the employer, upon withdrawal from a multi-employer plan, is required to continue to pay its proportionate share of the plan's unfunded vested benefits. The cooperative has no intention of withdrawing from the plan.

Such expenses were as follows:

	<u>2010</u>	<u>2009</u>
Payroll	62,402	76,581
Union Welfare and Pension Fund	19,082	23,227

Note 11 Carrying Charges

Pursuant to a meeting of the Board of Directors, the cooperative has approved an increase of 3.75% effective January 1, 2011 and 3% effective January 1, 2010.

Note 12 Subsequent Events

Management has evaluated subsequent events through February 24, 2011, 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.

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

**To the Board of Directors and Stockholders
LARCHMONT HILLS OWNERS CORP.**

Our report on our audits of the basic financial statements of LARCHMONT HILLS OWNERS CORP. for 2010 and 2009 appears earlier in these financial statements. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The attached supplementary information included (Schedule of Budget with Actual Operating Amounts and Detailed Schedule of Repairs) 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 auditing procedures applied in the audits of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**BLOOM AND STREIT LLP
Certified Public Accountants
February 24, 2011**

LARCHMONT HILLS OWNERS CORP.

Schedule of Budget with Actual Operating Amounts

	Budget	Actual	Actual
	Year Ended	Year Ended	Year Ended
	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
	(Unaudited)		
RECEIPTS			
Carrying Charges	766,750	766,750	744,418
Rental Income	8,100	8,250	6,363
Parking Income	6,600	7,260	6,600
Laundry Room Income	6,600	6,600	6,600
Storage Units	14,500	13,500	13,475
Interest Income	0	1,601	1,705
Miscellaneous Income	4,000	800	570
Total Receipts	806,550	804,762	779,731
 EXPENDITURES			
ADMINISTRATIVE EXPENSES			
Management Fee	30,000	30,000	30,000
Legal Expense	1,500	665	3,905
Auditing	8,500	8,496	8,580
Telephone and Beeper	2,000	2,903	2,144
Office and Administrative Expenses	5,704	5,781	6,078
Total Administrative Expenses	47,704	47,846	50,707
 MAINTENANCE EXPENSES			
Super and Maintenance Payroll	78,000	62,402	76,581
Supplies	16,000	14,556	24,003
Repairs and Maintenance(see schedule)	58,000	64,496	58,036
Major Repairs	17,500	12,502	0
Elevator Maintenance	10,000	6,663	10,352
Landscaping and Snow Removal	11,000	10,591	11,855
Exterminating	7,500	3,866	12,738
Total Maintenance Expenses	198,000	175,076	193,566
 UTILITIES EXPENSES			
Fuel	94,000	102,587	78,834
Electricity and Gas	15,500	15,476	15,535
Water	11,000	12,088	10,705
Total Utilities Expenses	120,500	130,151	105,074

See auditors' report on supplementary information

LARCHMONT HILLS OWNERS CORP.

Schedule of Budget with Actual Operating Amounts

	Budget Year Ended Dec. 31, 2010 (Unaudited)	Actual Year Ended Dec. 31, 2010	Actual Year Ended Dec. 31, 2009
TAXES AND INSURANCE			
Real Estate Taxes	226,000	223,630	215,225
Payroll Taxes	7,000	5,982	5,513
Licenses and Permits	500	1,970	0
Insurance	36,000	33,837	35,507
Union Welfare and Pension Fund	25,000	19,082	23,227
NYS Franchise Taxes	3,800	3,234	4,568
Total Taxes and Insurance	<u>298,300</u>	<u>287,735</u>	<u>284,040</u>
FINANCIAL EXPENSES			
Interest on Mortgage	<u>114,507</u>	<u>114,507</u>	<u>116,092</u>
CONTRIBUTIONS TO EQUITY AND RESERVES			
Amortization of Mortgage	<u>27,539</u>	<u>27,539</u>	<u>25,962</u>
Total Expenditures	<u>806,550</u>	<u>782,854</u>	<u>775,441</u>
NET SURPLUS (DEFICIT) FOR THE YEAR	<u>0</u>	<u>21,908</u>	<u>4,289</u>

See auditors' report on supplementary information

LARCHMONT HILLS OWNERS CORP.

Detailed Schedule of Repairs

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
REPAIRS		
Boiler and Burners	10,618	13,894
Plumbing and Pipes	11,626	12,130
Electrical	1,660	1,525
Painting, Plastering and Carpentry Work	12,184	10,545
Roofing and Waterproofing	8,432	3,494
Masonry and Tile Work	9,095	0
Window Repairs	4,504	7,360
Locks	767	5,071
Uniforms	172	593
Rubbish Removal	2,115	3,425
Snow Blower/Equipment	2,791	0
General	372	0
Total Repairs	<u>64,335</u>	<u>58,036</u>

See auditors' report on supplementary information