

WESTCHESTER GARDENS OWNERS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009



BLOOM AND STREIT LLP
CERTIFIED PUBLIC ACCOUNTANTS

ROGER BERMAN, CPA
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INDEPENDENT AUDITORS' REPORT

**To the Board of Directors and Stockholders
WESTCHESTER GARDENS OWNERS, INC.**

We have audited the accompanying balance sheets of WESTCHESTER GARDENS OWNERS, INC. 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 Corporation'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 WESTCHESTER GARDENS OWNERS, INC., 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 7, the corporation 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

BLOOM AND STREIT LLP
Certified Public Accountants
March 8, 2011

WESTCHESTER GARDENS OWNERS, INC.

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WESTCHESTER GARDENS OWNERS, INC.

Balance Sheets

As of December 31,

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash in Operating Account	5,823	8,089
Cash in Bank - Money Market Account	43,579	34,522
Cash in Bank - Investment Account	80,954	150,942
Tenants' Accounts Receivable	11,759	4,410
Prepaid Expenses	17,660	21,971
Total	159,776	219,933
Less: Allocated to Funds (see below)	(125,000)	(185,000)
Total Current Assets	<u>34,776</u>	<u>34,933</u>
FUNDS		
Contingency Reserve:		
Allocated from Current Assets (see above)	<u>125,000</u>	<u>185,000</u>
PROPERTY AND EQUIPMENT -		
Net Book Value	<u>5,820,307</u>	<u>5,913,832</u>
OTHER ASSETS		
Investment In National Cooperative Bank	4,660	6,045
Deferred Mortgage Financing Expenses	26,219	30,846
Total Other Assets	<u>30,879</u>	<u>36,891</u>
TOTAL ASSETS	<u><u>6,010,961</u></u>	<u><u>6,170,656</u></u>

	<u>2010</u>	<u>2009</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITES		
Accounts Payable	93,385	65,801
Accrued Interest	16,232	16,461
Star Credit Due to Stockholders	63,041	59,392
Rents Received in Advance	691	136
Security Deposits	8,164	5,914
Mortgage Amortization Payments due within one year	<u>45,629</u>	<u>42,851</u>
Total Current Liabilities	<u>227,141</u>	<u>190,556</u>
LONG-TERM LIABILITIES		
First Mortgage Payable - Net of Payments due within one year	<u>2,989,820</u>	<u>3,035,449</u>
STOCKHOLDERS' EQUITY		
Common Stock \$1.00 par value; 50,815 shares authorized issued and outstanding	50,815	50,815
Paid-in Capital	4,864,060	4,864,060
Retained Earnings (Deficit)	<u>(2,120,875)</u>	<u>(1,970,223)</u>
Total Stockholders' Equity	<u>2,794,000</u>	<u>2,944,652</u>
TOTAL LIABILITES AND STOCKHOLDERS' EQUITY	<u>6,010,961</u>	<u>6,170,656</u>

See accompanying notes and auditors' report

WESTCHESTER GARDENS OWNERS, INC.

Statements of Income (Loss)

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
INCOME		
Carrying Charges	977,131	930,174
Surcharge Income	57,169	76,226
Parking Income	46,995	46,980
Laundry Room Income	8,700	8,700
Storage Units	4,628	4,199
Interest Income	70	546
Miscellaneous Income	1,250	1,026
Total Income	<u>1,095,943</u>	<u>1,067,849</u>
EXPENSES		
Administrative Expenses	51,493	50,055
Maintenance Expenses	260,416	251,580
Utilities Expenses	203,491	160,360
Taxes and Insurance	408,863	387,332
Financial Expenses	192,357	194,979
Total Expenses Before Depreciation and Amortization	<u>1,116,620</u>	<u>1,044,306</u>
NET INCOME (LOSS) BEFORE DEPRECIATION AND AMORTIZATION	(20,677)	23,543
Depreciation and Amortization of Mortgage Financing Expenses and Lease Commissions	<u>(129,974)</u>	<u>(123,890)</u>
NET INCOME (LOSS) FOR THE YEAR	<u>(150,652)</u>	<u>(100,347)</u>

See accompanying notes and auditors' report

WESTCHESTER GARDENS OWNERS, INC.

Statements of Retained Earnings (Deficit)

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
RETAINED EARNINGS (DEFICIT) - Beginning of Year	(1,970,223)	(1,869,876)
Net Income (Loss) for the Year	<u>(150,652)</u>	<u>(100,347)</u>
RETAINED EARNINGS (DEFICIT) - End of Year	<u><u>(2,120,875)</u></u>	<u><u>(1,970,223)</u></u>

See accompanying notes and auditors' report

WESTCHESTER GARDENS OWNERS, INC.

Statements of Cash Flows

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Net Income (loss)	(150,652)	(100,347)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation and Amortization	129,974	123,890
Revenue allocated to financing activities	(42,851)	(40,243)
Decrease (Increase) in operating assets:		
Tenants' Accounts Receivable	(7,350)	(965)
Prepaid Expenses	4,311	21
Increase (Decrease) in operating liabilities:		
Accounts Payable	21,851	(8,410)
Accrued Interest Payable	(229)	(215)
Rents Received in Advance	556	(2,528)
Deposits and Exchanges	5,898	7,633
Net cash provided (used) by operating activities	<u>(38,492)</u>	<u>(21,163)</u>
Cash Flows From Investing Activities		
Redemption of NCB Stock	1,385	27,205
Purchase of Property and Equipment	(26,090)	(4,865)
Net cash provided (used) by investing activities	<u>(24,705)</u>	<u>22,340</u>
Cash Flows From Financing Activities		
Portion of Carrying Charges applied to Amortization of Mortgage	42,851	40,243
Amortization Payments on Mortgage	(42,851)	(40,243)
Net cash provided (used) by financing activities	<u>0</u>	<u>0</u>
Increase (Decrease) in Cash and Cash Equivalents (carryforward)	(63,196)	1,177

See accompanying notes and auditors' report

WESTCHESTER GARDENS OWNERS, INC.

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)	(63,196)	1,177
Cash and Cash Equivalents at Beginning of Year	<u>193,553</u>	<u>192,376</u>
Cash and Cash Equivalents at End of Year (see below)	<u><u>130,356</u></u>	<u><u>193,553</u></u>
Represented by:		
Cash in Operating Account	5,823	8,089
Cash in Bank - Money Market Account	43,579	34,522
Cash in Bank - Investment Account	<u>80,954</u>	<u>150,942</u>
Cash and Cash Equivalents (as above)	<u><u>130,356</u></u>	<u><u>193,553</u></u>
Supplemental Disclosure:		
Interest Paid	<u>192,128</u>	<u>194,764</u>

See accompanying notes and auditors' report

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 1

Organization

WESTCHESTER GARDENS OWNERS, INC., A Cooperative Housing Corporation (the Corporation), was incorporated in the State of New York in January 1986. The corporation owns and operates an apartment building located at 445 Gramatan Avenue, Mount Vernon, New York, consisting of 112 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 7 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.

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 2

Summary of Significant Accounting Policies - continued

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.

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.

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 2 **Summary of Significant Accounting Policies - continued**

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

Note 3 **Property and Equipment**

Property and Equipment consists of the following:

	<u>2010</u>	<u>2009</u>
Land	3,824,018	3,824,018
Building	3,086,857	3,086,857
Building improvements	<u>1,106,260</u>	<u>1,074,438</u>
	8,017,135	7,985,313
Less: accumulated depreciation	<u>2,196,828</u>	<u>2,071,481</u>
Total Property and Equipment	<u>5,820,307</u>	<u>5,913,832</u>

Depreciation expense of \$125,347 and \$119,264 were recognized for the year ended December 31, 2010 and 2009, respectively.

Note 4 **Mortgage Payable**

During 2006, the corporation refinanced its mortgage with NCB (National Cooperative Bank) in the amount of \$3,200,000. The mortgage, which is secured by the property, is payable in monthly installments of \$19,620, including interest at the rate of 6.21% per annum, based on a 30 year amortization period. The note matures on September 1, 2016, at which time a balloon payment of approximately \$2,731,000 is due.

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.

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 4

Mortgage Payable - continued

There are no patronage dividends paid during the year ended December 31, 2010 and December 31, 2009. At December 31, 2010 and 2009, the corporation owns approximately 47 and 60 Class B1 shares, respectively. At December 31, 2010 and 2009, the corporation owns 307 class B2 shares.

The loan agreements also provide for a \$500,000 available line of credit. The interest rate is 1% 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	45,629
2012	51,211
2013	54,483
2014	57,965
2015	61,668
2016(Including Payoff)	2,764,493

As part of the aforementioned refinancings, the cooperative has paid closing costs of approximately \$46,000, which are being amortized over the life of the new mortgage.

Note 5

Sponsor Ownership

At both December 31, 2010 and December 31, 2009, the Sponsor owned thirty residential units, or approximately 26% of the total residential units. Carrying charges received from the Sponsor's residential units aggregated approximately \$254,000 and \$242,000 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.

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 6

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 \$549,000. Unless used, these net operating losses are set to expire from 2011 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 7

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.

WESTCHESTER GARDENS OWNERS, INC.

Notes to Financial Statements

December 31, 2010 and 2009

Note 8 **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 9 **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	132,784	128,650
Union Welfare and Pension Fund	44,968	40,993

Note 10 **Charges**

In November 2009 the cooperative approved a 3% increase in maintenance and a \$1.50 per share fuel surcharge effective January 1, 2010. The fuel surcharge was rolled into maintenance effective October 1, 2010. In November 2010 the cooperative approved a 5% increase in maintenance and a \$10 increase in the monthly parking charge effective January 1, 2011.

Note 11 **Subsequent Events**

Management has evaluated subsequent events through March 8, 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
WESTCHESTER GARDENS OWNERS, INC.**

Our report on our audits of the basic financial statements of WESTCHESTER GARDENS OWNERS, INC. 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
March 8, 2011**

WESTCHESTER GARDENS OWNERS, INC.

Schedule of Budget with Actual Operating Amounts

	Budget Year Ended <u>Dec. 31, 2010</u> (Unaudited)	Actual Year Ended <u>Dec. 31, 2010</u>	Actual Year Ended <u>Dec. 31, 2009</u>
RECEIPTS			
Carrying Charges	958,079	977,131	930,174
Surcharge Income	76,222	57,169	76,226
Parking Income	47,000	46,995	46,980
Laundry Room Income	8,700	8,700	8,700
Storage Units	2,800	4,628	4,199
Interest Income	2,000	70	546
Miscellaneous Income	2,800	1,250	1,026
Total Receipts	<u>1,097,601</u>	<u>1,095,943</u>	<u>1,067,849</u>
EXPENDITURES			
ADMINISTRATIVE EXPENSES			
Management Fee	31,500	31,500	31,675
Legal Expense	1,500	1,235	1,570
Auditing	8,500	8,400	7,896
Telephone and Beeper	2,500	3,836	3,635
Office and Administrative Expenses	4,500	6,522	5,278
Total Administrative Expenses	<u>48,500</u>	<u>51,493</u>	<u>50,055</u>
MAINTENANCE EXPENSES			
Super and Maintenance Payroll	125,000	132,784	128,650
Supplies	15,000	17,658	14,447
Repairs and Maintenance(see schedule)	68,161	63,012	66,953
Exterminating	2,500	2,106	2,324
Landscaping and Grounds	18,000	20,515	21,700
Tree Services	4,000	9,204	5,106
Snow Removal	6,000	15,136	12,400
Total Maintenance Expenses	<u>238,661</u>	<u>260,416</u>	<u>251,580</u>
UTILITIES EXPENSES			
Fuel	130,000	165,171	130,262
Electricity and Gas	20,500	22,252	17,444
Water	16,000	16,068	12,653
Total Utilities Expenses	<u>166,500</u>	<u>203,491</u>	<u>160,360</u>

See auditors' report on supplementary information

WESTCHESTER GARDENS OWNERS, INC.

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	292,500	297,159	278,526
Payroll Taxes	12,000	11,242	10,322
Licenses and Permits	500	0	0
Insurance	56,000	52,472	53,182
Union Welfare and Pension Fund	44,000	44,968	40,993
NYS Franchise Taxes	3,500	3,022	4,310
Total Taxes and Insurance	<u>408,500</u>	<u>408,863</u>	<u>387,332</u>
FINANCIAL EXPENSES			
Interest on Mortgage	<u>193,976</u>	<u>192,357</u>	<u>194,979</u>
CONTRIBUTIONS TO EQUITY AND RESERVES			
Amortization of Mortgage	<u>41,464</u>	<u>42,851</u>	<u>40,243</u>
Total Expenditures	<u>1,097,601</u>	<u>1,159,472</u>	<u>1,084,549</u>
NET SURPLUS (DEFICIT) FOR THE YEAR	<u>0</u>	<u>(63,529)</u>	<u>(16,700)</u>

See auditors' report on supplementary information

WESTCHESTER GARDENS OWNERS, INC.

Detailed Schedule of Repairs

For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
REPAIRS		
Boiler and Burners	4,643	17,752
Plumbing and Pipes	11,222	18,065
Electrical	6,217	5,384
Painting, Plastering and Carpentry Work	2,824	13,214
Roofing and Waterproofing	0	342
Paving and Excavation	8,277	0
Masonry and Tile Work	14,216	3,090
Fencing and Gates	1,842	0
Window Repairs	2,260	455
Locks	0	2,357
Engineers and Architects	491	0
Uniforms	714	528
Rubbish Removal	1,745	2,665
Truck Expenses	4,874	2,202
General	3,687	898
Total Repairs	<u>63,012</u>	<u>66,953</u>

See auditors' report on supplementary information