

VAIL'S GROVE COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 and 2010

(with Independent Auditors' Report thereon)

PETER R. ROSSI, JR., CPA
CERTIFIED PUBLIC ACCOUNTANT

VAIL'S GROVE COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

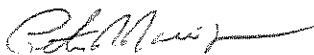
To the Shareholders and Board of Directors
Vail's Grove Cooperative, Inc.
5 Vail Boulevard-Peach Lake
Brewster, NY 10509

I have audited the accompanying balance sheets of Vail's Grove Cooperative, Inc. as of December 31, 2011 and 2010 and the related statements of operations, supporting schedules, and shareholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vail's Grove Cooperative, Inc. as of December 31, 2011 and 2010 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.

The supplementary information on future major repairs and replacements on Page 11 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion it.



Peter R. Rossi, Jr.
Certified Public Accountant

Date of Report: March 10, 2012

VAIL'S GROVE COOPERATIVE INC.
BALANCE SHEET
December 31,

ASSETS

	2011	2010
Cash and Cash Equivalents	\$ 495,698	\$ 457,518
Maintenance Charges Receivable	12,620	8,403
Mortgage Note Receivable and Prepaid Expenses	58,389	66,711
Property and Equipment (Net)	965,456	1,001,589
TOTAL ASSETS	\$ 1,532,163	\$ 1,534,221

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

Accounts Payable	\$ 14,758	\$ 14,820
Corporate Taxes	205	205
TOTAL LIABILITIES	14,963	15,025

SHAREHOLDERS' EQUITY:

Capital Stock, \$.10 par value		
Authorized - 200,000 shares		
Outstanding - 23,440 shares	2,345	2,345
Additional Paid-In Capital	1,263,503	1,263,503
Retained Earnings	251,352	253,348
TOTAL SHAREHOLDERS' EQUITY	1,517,200	1,519,196
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,532,163	\$ 1,534,221

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF OPERATIONS
December 31,

	2011	2010
<u>REVENUES:</u>		
Maintenance Charges	\$ 422,196	\$ 412,814
Interest Income	7,088	8,767
Rental Income - Shareholders Rentals	25,760	26,199
Rental Income - Pavilion Rentals	6,125	4,630
Late Charges and Other Fees	3,522	3,985
Application and Transfer Fees	6,641	5,092
Other Income	6,811	14,451
TOTAL REVENUES	478,143	475,938
<u>EXPENSES:</u>		
FIXED COSTS AND OTHER CHARGES		
Supplemental Schedule A	95,216	89,855
OPERATING EXPENSES		
Supplemental Schedule B	207,251	221,950
REPAIRS AND MAINTENANCE		
Supplemental Schedule C	78,909	72,561
GENERAL AND ADMINISTRATIVE		
Supplemental Schedule D	37,391	59,726
TOTAL EXPENSES	418,767	444,092
EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION	59,376	31,846
DEPRECIATION	(61,372)	(49,579)
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENSES	\$ (1,996)	\$ (17,733)

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF OPERATIONS
December 31,

	2011	2010
<u>FIXED COSTS AND OTHER CHARGES-SCHEDULE A</u>		
Real Estate Taxes	\$ 70,411	\$ 66,860
Insurance	24,805	22,995
TOTAL FIXED COSTS AND OTHER CHARGES	\$ 95,216	\$ 89,855
 <u>OPERATING EXPENSES - SCHEDULE B</u>		
Salaries and Payroll Taxes	\$ 135,567	\$ 136,832
Utilities	36,438	32,409
Pavilion Use Expense	3,098	6,506
Environmental/Lake Treatment	7,049	7,686
Beach and Recreation	7,985	15,119
Refuse Removal	17,114	23,398
TOTAL OPERATING EXPENSES	\$ 207,251	\$ 221,950
 <u>REPAIRS AND MAINTENANCE - SCHEDULE C</u>		
General and Maintenance Costs	\$ 24,212	\$ 14,368
Snow Removal	27,753	27,611
Truck Maintenance Costs	9,503	6,641
Water Leaks	17,441	23,941
TOTAL REPAIRS AND MAINTENANCE	\$ 78,909	\$ 72,561
 <u>GENERAL AND ADMINISTRATIVE EXPENSES - SCH. D</u>		
Postage, Printing and Office Supplies	\$ 12,688	\$ 11,536
Professional Services	21,003	44,794
Income and Franchise Tax	205	205
Miscellaneous	3,495	3,191
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 37,391	\$ 59,726

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF SHAREHOLDERS' EQUITY
December 31, 2011 AND 2010

	TOTAL	CAPITAL STOCK	ADDITIONAL PAID IN CAPITAL	UNAPPROP. RETAINED EARNINGS	DESIGNATED FOR FUTURE CAPITAL IMPROVEMENTS
Shareholders Equity					
January 1, 2011	\$ 1,519,196	\$ 2,345	\$ 1,263,503	\$ (76,527)	\$ 329,875
Excess of Expenses over Revenues	(1,996)			(1,996)	
Amounts allocated to Future Capital Improvements and Prior Period Adjustments				120,095	(120,095)
Shareholders Equity					
December 31, 2011	<u>\$ 1,517,200</u>	<u>\$ 2,345</u>	<u>\$ 1,263,503</u>	<u>\$ 41,572</u>	<u>\$ 209,780</u>
Shareholders Equity					
January 1, 2010	\$ 1,536,929	\$ 2,345	\$ 1,263,503	\$ (58,794)	\$ 329,875
Excess of Expenses over Revenue	(17,733)			(17,733)	
Shareholders Equity					
December 31, 2010	<u>\$ 1,519,196</u>	<u>\$ 2,345</u>	<u>\$ 1,263,503</u>	<u>\$ (76,527)</u>	<u>\$ 329,875</u>

The accompanying footnotes are an integral part of the financial statements

**VAIL'S GROVE COOPERATIVE
STATEMENT OF CASH FLOWS
For the Years Ended December 31,**

	2011	2010
<u>OPERATING ACTIVITIES:</u>		
Excess(Deficiency) of Revenues over Expenses	\$ (1,996)	\$ (17,733)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Depreciation	61,372	49,579
Decrease (increase) in assets:		
Maintenance Charges Receivable	(4,217)	194
Special Assessment Receivable	-	13,410
Prepaid Expenses	8,322	(5,194)
Increase (decrease) in liabilities:		
Accounts payable	(62)	(438)
Other Liabilities	-	(59,360)
NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES	63,419	(19,542)
<u>INVESTING ACTIVITIES:</u>		
Acquisition of Property and Equipment- Net	(25,239)	(233,946)
Retained Earnings Adjustments	-	-
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	(25,239)	(233,946)
<u>FINANCING ACTIVITIES:</u>		
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	38,180	(253,488)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	457,518	711,006
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 495,698	\$ 457,518

The accompanying footnotes are an integral part of the financial statements

**VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Vail's Grove Cooperative, Inc. (The Corporation) is presented to assist in the understanding of the Corporation's financial statements. The financial statements and the notes are representations of the Corporation's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization

Vail's Grove Cooperative, Inc. was incorporated in the State of New York on November 30, 1972 and is organized as a "Cooperative Housing Corporation" as defined in Section 216(b)(1) of the Internal Revenue Code. It consists of common areas and 173 parcels leased to its 173 shareholders. The primary purpose of the Corporation is to manage the operations of Vail's Grove Cooperative, Inc. and maintain the common elements.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Property and Equipment

Expenditures for major improvements and betterments that extend the useful life of the property are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of fixed assets is recorded using straight-line and accelerated methods for financial statement purposes. Estimated useful lives in calculating depreciation are as follows:

Buildings	32 - 40 years
Land Improvement	10 - 40 years
Furniture and Equipment	3 - 7 years
Building Improvements	10 - 27 1/2 years

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Taxes

The Corporation is subject to Federal Income Taxation and New York State Franchise Taxes. Net operating losses, if any, may be carried forward for a period of 20 years.

The Internal Revenue Service and New York State have taken the position that real estate cooperatives are subject to Section 277 of the Internal Revenue Code. Section 277 subjects to Federal and State Taxation, net income derived from non-membership sources. Recent tax court decisions have left uncertainty as to the applicability of Section 277 and the taxability of interest earned on reserve funds. Therefore, beginning in 1998 the Corporation has taken the position that no provision for income taxes is required pursuant to Section 277 for investment income on reserve funds.

Cash Equivalents

For the purpose of the statement of cash flows, the Corporation considers money market funds to be cash equivalents.

Maintenance Charges

Tenant shareholders are subject to quarterly maintenance charges to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Maintenance charges receivable at the balance sheet date represent fees due from tenant shareholders. No Provision has been made in the financial statements for any non-payment of these charges. The Corporation's policy is to retain legal counsel and place liens on the shares of stock of tenant shareholders whose maintenance charges are ninety days or more delinquent. Any excess maintenance charges at year end are retained by the Corporation for its use in future years.

Real Estate Taxes

Tenant shareholders are responsible for paying real estate taxes related to their units. The Corporation is responsible for real estate taxes on the common property.

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2011

NOTE 2 - PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized as follows as of December 31:

	<u>2011</u>	<u>2010</u>
Land	\$ 485,027	\$ 485,027
Land Improvements	1,156,515	1,136,117
Equipment	236,788	236,788
Building Improvements	<u>394,387</u>	<u>389,546</u>
	2,272,717	2,247,478
Less: Accumulated Depreciation	<u>(1,307,261)</u>	<u>(1,245,889)</u>
	<u>\$ 965,456</u>	<u>\$ 1,001,589</u>

Depreciation expense for the year ended December 31, 2011 and December 31, 2010 was \$61,372 and \$49,579 respectively.

NOTE 3 - LOAN MORTGAGE RECEIVABLE

The Corporation sold the premises located on 2 Orchard Road in July 2001 for \$100,420. Terms of the sale included a down payment in the amount of \$20,520 and the balance payable pursuant to the terms of a promissory note in the principal amount of \$79,900 over a term of 20 years. The interest rate on the mortgage receivable is fixed at 8% per annum. The gain on the sale of the property was \$78,436.

NOTE 4 - CASH AND CASH EQUIVALENTS

Cash consisted of the following as of December 31,

	<u>2011</u>	<u>2010</u>
Demand Deposit	\$ 70,575	\$ 49,796
Passbook Savings	215,343	213,243
Money Market Reserves	<u>209,780</u>	<u>194,479</u>
	<u>\$ 495,698</u>	<u>\$ 457,518</u>

NOTE 5 - INSURED CASH

The Corporation has deposits in various commercial banks. At December 31, 2011 these deposits were fully insured by the FDIC.

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2011

NOTE 6 - INTEREST INCOME

The Corporation receives interest from savings, reserve funds and the mortgage receivable.

NOTE 7 - RENTAL INCOME

The Corporation rents garage space to shareholders. It also receives ten percent of the rent received by shareholders who have sublet their houses, and rental fees from shareholders and non-shareholders for use of the Pavilion.

NOTE 8 - RELATED PARTY TRANSACTIONS

A number of shareholders are paid directly or indirectly by the Corporation for services rendered. The Corporation also utilizes the service of outside agencies, which employ family members of shareholders and members of the Board of Directors.

NOTE 9 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation accumulates funds for future major repairs and replacements. Accumulated funds, which aggregates \$209,780 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes. It is the Corporation's policy to allocate interest earned on such funds to the replacement fund. Amounts in the replacement fund or future major repairs and replacements are being accumulated based on estimated current replacement costs. Actual costs may vary from those estimates and the variations may be material. Amounts so accumulated may not be adequate to meet future needs. If additional funds are needed, however, the Corporation has the right, subject to Board of Directors approval, to increase regular monthly maintenance charges, to levy special assessments, or it may delay major repairs and replacements until funds are available.

VAIL'S GROVE COOPERATIVE, INC.
SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)

The Corporation's Board of Directors, with their long range planning committee, estimates the remaining useful lives and the replacement costs of the components of certain common property to be as follows at December, 31, 2011.

Components	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Pump House	1-3	300,000
Water Lines	15	90,000
Rental Garage	15	70,000
Garage	10	12,000
Pavilion	10	10,000
Tennis Court	15	10,000
Truck	1-2	<u>60,000</u>
Totals		552,000

THE INFORMATION CONTAINED IN THIS SUPPLEMENTARY INFORMATION IS NOT FOR PUBLIC DISCLOSURE AND IS INTENDED SOLELY FOR THE USE OF THE UNIT OWNERS OF THIS CORPORATION.