

VAIL'S GROVE COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011

(with Independent Auditors' Report thereon)

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

VAIL'S GROVE COOPERATIVE, INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

Independent Auditor's Report	1
Financial Statements:	
Balance Sheet	2
Statement of Operations	3
Supplement to the Statement of Operations - Schedules A-D	4
Statement of Shareholders' Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7-10
Supplementary Information on Future Major Repairs and Replacements	11

PETER R. ROSSI, JR., CPA
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, 2012 and 2011 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, 2012 and 2011 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: February 12, 2013

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

ASSETS

	2012	2011
Cash and Cash Equivalents	\$ 555,396	\$ 495,698
Maintenance Charges Receivable	7,934	12,620
Mortgage Note Receivable and Prepaid Expenses	54,533	58,389
Property and Equipment (Net)	923,109	965,456
TOTAL ASSETS	\$ 1,540,972	\$ 1,532,163

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

Accounts Payable	\$ 18,150	\$ 14,963
TOTAL LIABILITIES	18,150	14,963

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	256,974	251,352
TOTAL SHAREHOLDERS' EQUITY	1,522,822	1,517,200
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,540,972	\$ 1,532,163

The accompanying footnotes are an integral part of the financial statements

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

	2012	2011
<u>REVENUES:</u>		
Maintenance Charges	\$ 421,859	\$ 422,196
Interest Income	6,128	7,088
Rental Income - Shareholders Rentals	22,550	25,760
Rental Income - Pavilion Rentals	9,655	6,125
Late Charges and Other Fees	4,057	3,522
Application and Transfer Fees	5,168	6,641
Other Income	2,750	6,811
TOTAL REVENUES	472,167	478,143
<u>EXPENSES:</u>		
FIXED COSTS AND OTHER CHARGES		
Supplemental Schedule A	99,109	95,216
OPERATING EXPENSES		
Supplemental Schedule B	222,345	207,251
REPAIRS AND MAINTENANCE		
Supplemental Schedule C	59,694	78,909
GENERAL AND ADMINISTRATIVE		
Supplemental Schedule D	29,799	37,391
TOTAL EXPENSES	410,947	418,767
EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION	61,220	59,376
DEPRECIATION	(55,598)	(61,372)
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENSES	\$ 5,622	\$ (1,996)

The accompanying footnotes are an integral part of the financial statements

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

	2012	2011
<u>FIXED COSTS AND OTHER CHARGES-SCHEDULE A</u>		
Real Estate Taxes	\$ 74,964	\$ 70,411
Insurance	24,145	24,805
TOTAL FIXED COSTS AND OTHER CHARGES	\$ 99,109	\$ 95,216
 <u>OPERATING EXPENSES - SCHEDULE B</u>		
Salaries and Payroll Taxes	\$ 141,926	\$ 135,567
Utilities	33,619	36,438
Pavilion Use Expense	7,332	3,098
Environmental/Lake Treatment	11,495	7,049
Beach and Recreation	8,286	7,985
Refuse Removal	19,687	17,114
TOTAL OPERATING EXPENSES	\$ 222,345	\$ 207,251
 <u>REPAIRS AND MAINTENANCE - SCHEDULE C</u>		
General and Maintenance Costs	\$ 27,348	\$ 24,212
Snow Removal	18,329	27,753
Truck Maintenance Costs	6,872	9,503
Water Leaks	7,145	17,441
TOTAL REPAIRS AND MAINTENANCE	\$ 59,694	\$ 78,909
 <u>GENERAL AND ADMINISTRATIVE EXPENSES - SCH. D</u>		
Postage, Printing and Office Supplies	\$ 11,677	\$ 12,688
Professional Services	15,617	21,003
Income and Franchise Tax	205	205
Miscellaneous	2,300	3,495
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	\$ 29,799	\$ 37,391

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF SHAREHOLDERS' EQUITY
December 31, 2012 AND 2011

	TOTAL	CAPITAL STOCK	ADDITIONAL PAID IN CAPITAL	UNAPPROP. RETAINED EARNINGS	DESIGNATED FOR FUTURE CAPITAL IMPROVEMENTS
Shareholders Equity					
January 1, 2012	\$ 1,517,200	\$ 2,345	\$ 1,263,503	\$ 41,572	\$ 209,780
Excess of Expenses over Revenues	5,622			5,622	
Amounts allocated to Future Capital Improvements and Prior Period Adj				(315)	315
Shareholders Equity					
December 31, 2012	\$ 1,522,822	\$ 2,345	\$ 1,263,503	\$ 46,879	\$ 210,095
Shareholders Equity					
January 1, 2011	\$ 1,519,196	\$ 2,345	\$ 1,263,503	\$ (76,527)	\$ 329,875
Excess of Expenses over Revenue	(1,996)			(1,996)	
Amounts allocated to Future Capital Improvements and Prior Period Adj				120,095	(120,095)
Shareholders Equity					
December 31, 2011	\$ 1,517,200	\$ 2,345	\$ 1,263,503	\$ 41,572	\$ 209,780

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,**

	2012	2011
<u>OPERATING ACTIVITIES:</u>		
Excess(Deficiency) of Revenues over Expenses	\$ 5,622	\$ (1,996)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities:		
Depreciation	55,598	61,372
Decrease (increase) in assets:		
Maintenance Charges Receivable	4,686	(4,217)
Special Assessment Receivable	-	-
Prepaid Expenses	3,856	8,322
Increase (decrease) in liabilities:		
Accounts payable	3,187	(62)
Other Liabilities	-	-
NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES	72,949	63,419
<u>INVESTING ACTIVITIES:</u>		
Acquisition of Property and Equipment- Net	(13,251)	(25,239)
Retained Earnings Adjustments	-	-
NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES	(13,251)	(25,239)
<u>FINANCING ACTIVITIES:</u>		
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	59,698	38,180
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	495,698	457,518
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 555,396	\$ 495,698

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012

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, 2012

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, 2012

NOTE 2 - PROPERTY AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Land	\$ 485,027	\$ 485,027
Land Improvements	1,156,515	1,156,515
Equipment	237,636	236,788
Building Improvements	406,790	394,387
	<u>2,285,968</u>	<u>2,272,717</u>
Less: Accumulated Depreciation	<u>(1,362,859)</u>	<u>(1,307,261)</u>
	<u>\$ 923,109</u>	<u>\$ 965,456</u>

Depreciation expense for the year ended December 31, 2012 and December 31, 2011 was \$55,598 and \$61,372 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>2012</u>	<u>2011</u>
Demand Deposit	\$ 128,457	\$ 70,575
Passbook Savings	216,844	215,343
Money Market Reserves	210,095	209,780
	<u>\$ 555,396</u>	<u>\$ 495,698</u>

NOTE 5 - INSURED CASH

The Corporation has deposits in various commercial banks. At December 31, 2012 these deposits were fully insured by the FDIC.

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2012

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 \$210,095 at December 31, 2012, 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, 2012.

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.