SAMPLE CONDOMINIUM

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

SAMPLE CONDOMINIUM

INDEX

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A PRACTICE LIMITED TO
COOPERATIVES AND CONDOMINIUMS

WILLIAM J. GREENBERG, CPA
(1924 - 2012)

INDEPENDENT AUDITORS' REPORT

To the Board of Managers and Unit Owners of
Sample Condominium

We have audited the accompanying financial statements of Sample Condominium (the "Association"), which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of operations and changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample Condominium as of December 31, 2013 and 2012, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the supplementary information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

GREENBERG & BRENNAN, CPA's, P.C.

New York, New York
March 25, 2014

SAMPLE CONDOMINIUM

BALANCE SHEETS

ASSETS

	December 31, 2013	December 31, 2012
Cash and Equivalents: *(Note 2B)*		
Operating Account	$ 325,473	$ 235,180
Reserve Accounts	1,229,728	934,108
	1,555,201	1,169,288
Receivables: *(Note 2E)*		
Common Charges	22,651	16,053
Electric Submetering	45,163	37,558
Water and Sewer Submetering	7,030	21,016
Miscellaneous	3,338	2,278
	78,182	76,905
Prepaid Expenses:		
Insurance	84,288	81,874
Real Estate Taxes	3,718	3,824
Service Contracts	2,275	2,076
	90,281	87,774
Security Deposits – Cash Account	80,094	15,500
Security Deposit – Resident Manager's Parking	542	542
Deferred Expenses – Developer Settlement *(Note 7)*	45,750	35,200
Resident Manager's Unit Owned by Association *(Note 2F)*	1,675,000	1,675,000
Furniture and Fixtures	62,054	–
Less: Accumulated Depreciation *(Note 2C)*	240,377	186,960
	1,496,677	1,488,040
TOTAL ASSETS	$ 3,346,727	$ 2,873,249

See Independent Auditors' Report and Notes to Financial Statements.

SAMPLE CONDOMINIUM

BALANCE SHEETS

LIABILITIES AND MEMBERS' EQUITY

	December 31, 2013	December 31, 2012
Liabilities		
Accounts Payable and Accrued Liabilities	$ 182,108	$ 151,061
Prepaid Common Charges	56,158	17,038
Due to Unit Owners – Real Estate Tax Refund *(Note 5)*	–	159
Security Deposits Payable	124,983	15,500
Total Liabilities	363,249	183,758
Members' Equity		
Contributed Capital: *(Note 2F)*		
Working Capital	192,819	190,055
Resident Manager's Unit	1,675,000	1,675,000
	1,867,819	1,865,055
Accumulated Surplus	1,115,659	824,436
Total Members' Equity	2,983,478	2,689,491
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 3,346,727	$ 2,873,249

See Independent Auditors' Report and Notes to Financial Statements.

SAMPLE CONDOMINIUM

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY

	For the Years Ended December 31,	
	2013	2012
OPERATING INCOME		
Common Charges *(Note 2E)*	$ 2,526,796	$ 2,473,913
License Fee – Hallway Space *(Note 9)*	240,000	–
Late Fees	7,445	11,521
Miscellaneous Income	2,679	2,074
Interest	2,856	1,225
Total Operating Income	2,779,776	2,488,733
COST OF OPERATIONS		
Operating Expenses – *Schedule 1*	1,900,218	1,831,310
Repairs and Maintenance – *Schedule 2*	294,257	214,584
Administrative Expenses – *Schedule 3*	223,421	206,103
Taxes – *Schedule 4*	17,240	16,664
Total Cost of Operations	2,435,136	2,268,661
Operating Surplus Before Depreciation Expense	344,640	220,072
Less: Depreciation Expense *(Note 2C)*	53,417	53,417
NET SURPLUS FOR THE YEAR	291,223	166,655
Accumulated Surplus – Beginning of the Year	824,436	657,781
Accumulated Surplus – End of the Year	$ 1,115,659	$ 824,436

See Independent Auditors' Report and Notes to Financial Statements.

SAMPLE CONDOMINIUM

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Surplus for the Year	$ 291,223	$ 166,655
Adjustments to Reconcile Net Surplus to Net Cash Provided by Operating Activities:		
Depreciation Expense	53,417	53,417
(Increase) Decrease in Accounts Receivable	(1,277)	(2,062)
(Increase) Decrease in Prepaid Expenses	(2,507)	(7,382)
(Increase) Decrease in Security Deposits	(64,594)	7,168
(Increase) Decrease in Deferred Expenses	(10,550)	(35,200)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	31,047	(31,899)
Increase (Decrease) in Prepaid Common Charges	39,120	(14,881)
Increase (Decrease) in Security Deposits Payable	109,483	(7,168)
Increase (Decrease) in Amounts Due to Unit Owners	(159)	(1,343)
Total Adjustments	153,980	(39,350)
Net Cash Provided by Operating Activities	445,203	127,305
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Furniture and Fixtures	(62,054)	–
Net Cash (Used) by Investing Activities	(62,054)	–
CASH FLOWS FROM FINANCING ACTIVITIES:		
Working Capital Contributions	2,764	525
Net Cash Provided by Financing Activities	2,764	525
Net Increase in Cash and Equivalents	385,913	127,830
Cash and Equivalents, Beginning	1,169,288	1,041,458
Cash and Equivalents, Ending	$ 1,555,201	$ 1,169,288

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

	2013	2012
Cash Paid During the Year:		
Association Taxes	$ 13,010	$ 13,090
Interest	$ –	$ –

See Independent Auditors' Report and Notes to Financial Statements.

NOTE 1 – THE ASSOCIATION

Sample Condominium (the "Association") is a statutory condominium association organized pursuant to Article 9-B of the Real Property Law of the State of New York as amended, commonly known as the New York State Condominium Act for the purposes of maintaining and preserving the premises located at ..... Street, New York, NY. The Association began operations, officially, on November 10, 2008. The Association consists of 76 residential units, including a unit occupied by the resident manager, and 3 commercial units.

Under condominium ownership, each unit owner possesses title to his unit and is entitled to exclusive use of it. In addition, each unit owner has an undivided interest (a percentage) as set forth in the Public Offering Statement in the common elements of the condominium. The financial statements do not include the cost of the individual units and the common elements of the condominium.

Real estate taxes and mortgages applicable to the individual units are independently billed to and paid by each unit owner. These financial statements do not reflect such expenditures.

As of December 31, 2013, the developer owned 2 residential units representing 2.2884% of residential common interest.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America on the accrual basis, in which income is recognized when earned and expenses are recognized when incurred.

B. Cash and Equivalents

For purpose of the statement of cash flows, the Association considers all highly liquid operating (undesignated) instruments with maturity of three months or less to be cash equivalents.

C. Recognition of Assets

The Association adopted the following accounting principles which are stated in the audit and accounting guide for Common Interest Realty Associations (CIRA) issued by the American Institute of Certified Public Accountants. These principles are described as the prevalent industry practices followed by condominiums for recognizing common real property as assets.

Real property and common areas acquired from the developer and subsequent major repairs or improvements to such property are not recorded in the Association's financial statements as assets because those properties are owned by the individual unit owners in common and not by the Association. Personal property assets are recorded at cost and are depreciated over the useful life of the assets.

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

C. Recognition of Assets *(Continued)*

In 2009, the Association acquired Unit 3C *(see also Note 2F)*. It is recorded at acquisition cost inclusive of closing expenses. The property is depreciated on the straight-line method over twenty-seven and one-half years.

D. Capital Improvements

Capital improvements to the building and its components which are directly associated with the units will be recognized as nonoperating expenses for income tax purposes and for financial reporting purposes. Capital improvements not directly associated with the units and personal property acquired, if any, will be capitalized for both income tax purposes and financial reporting purposes.

E. Common Charges/Accounts Receivable

Unit owners are subject to monthly common charges to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess common charges at year end are retained by the Association for use in future years.

Accounts receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and in some instances place liens on the units of members whose common charges are unreasonably delinquent. The Association considers all unit owners' receivables at 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.

F. Members' Capital Contributions

Members' Initial Working Capital Contributions

Upon the initial acquisition of title to a unit, each member of the Association was required to make a one-time, non-refundable working capital contribution in the amount equal to one month's common charges assessed against the unit at the time of closing. The amounts in the working capital fund may be held or used at any time for working capital, to make repairs or for any appropriate purposes as determined by the Board of Managers. These contributions have been recorded as capital directly to the members' equity in the accompanying financial statements.

Members' Capital Contributions to Purchase the Resident Manager's Unit

Upon the initial acquisition of title to a unit, each member of the Association was required to make a one-time, non-refundable capital contribution in the amount equal to the member's proportionate share of the total costs associated with the purchase of the resident manager's unit (#3C). These contributions were recorded as capital directly to the members' equity in the accompanying financial statements.

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

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Concentration of Credit Risk

The Association maintains its cash in a bank account, which, at times, may exceed federally insured limits. The Association has not experienced any losses in this account and believes it is not exposed to any significant credit risk on cash and equivalents.

NOTE 3 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association has not conducted a study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The Board of Managers also has not developed a plan to fund those needs. When funds are required to meet future needs for major repairs and replacements, the Association has the option to borrow, increase common charge assessments, pass special assessments or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

NOTE 4 – ASSOCIATION TAXES

Under Section T of the Internal Revenue Code, certain condominiums may qualify as a "homeowners association" within the meaning of IRS Code Section 528(c) and, therefore, can elect to be exempt from income tax on common charges. The Association has made such election and files Form 1120H as its annual income tax return. The Association has also determined that there are no uncertain tax positions that require either recognition or disclosure in the accompanying financial statements.

The Association is also subject to New York State Franchise and New York City General Corporation taxes that are calculated on the greater of its capital base or income base.

Unit owners own legal title to their units. As such, the unit owners qualify to deduct New York City real estate taxes, which are billed separately to them. They will also qualify to deduct interest, within certain limitations, on debt used to acquire, construct or substantially improve any qualified residence. A qualified residence means (i) a principal residence and (ii) one secondary residence selected by the Unit Owner.

NOTE 5 – REAL ESTATE TAX ABATEMENTS/PERSONAL EXEMPTIONS

As a result of recently enacted 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 shouldered 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. In February 2013, legislation was signed extending the abatement program through June 30, 2015, although the abatement is being phased out for apartments owned by those who are not residents (for income tax purposes) of New York City.

Abatements are based upon the assessed valuation of the land and building as multiplied by the current tax rate less any other abatements and exemptions. The portion of the abatement, granted on a tax bill when the tax is due to be paid, serves to directly reduce the amount of real estate tax payable by the unit owners.

The Association received $418,311 and $106,851 in real estate tax refunds for the Section 421-a tax exemption on behalf of the unit owners in 2009 and 2011 respectively. As of the balance sheet date, the refunds have been distributed to the unit owners.

NOTE 6 – UNION BENEFITS

Substantially all of the Association's employees are members of the Service Employees International Union Local 32BJ (the "Union") and are covered by the Union sponsored, collectively bargained, multiemployer defined benefit pension, annuity and health insurance plan (the "Plan"). The Association's contributions to the Plan are determined in accordance with the provisions of the negotiated labor agreement, which expires on April 20, 2018. The Association's contributions to the Plan were less than 5% of the Plan's total contributions for the year ending December 31, 2013.

The Association's contributions to the Building Service 32BJ Pension Fund (the "Fund"), EIN 13-1879376, for 2013 and 2012 were $66,157 and $63,588 respectively. The contributions to the Fund are not segregated or restricted to provide benefits only to the Association's employees. Information as to the Association's portion of the unfunded vested benefits and Fund's accumulated assets is not determinable. Under the Employee Retirement Income Security Act, as amended, an employer, upon withdrawal from the Plan, is required to continue to pay its proportionate share of the Fund's unfunded vested benefits. The Association has no intention of withdrawing from the Plan.

NOTE 6 – UNION BENEFITS *(Continued)*

In accordance with the Pension Protection Act of 2006, the Fund receives an annual certified zone status from its actuary, which summarizes the Fund's funding status. The Fund's most recently available certified zone status was "red", which indicates that the Fund was less than 65% funded as of the Plan's year end date of June 30, 2013. The Fund is considered to be in critical status for the Plan's year beginning July 1, 2013, and its actuary has determined that there will be a funding deficiency within the next three years. A rehabilitation plan to restore the Fund's financial health has been adopted. The rehabilitation plan may involve a surcharge on employers or a reduction or elimination of certain benefits.

NOTE 7 – DEFERRED EXPENSES – SETTLEMENT WITH DEVELOPER

The Board is in the process of negotiating a final settlement with the Developer. As of December 31, 2013, the Association has incurred $45,750 in corrective repairs and related expenses.

NOTE 8 – SUPER STORM SANDY

As a result of the hurricane, the building's exterior curtain/panel wall was damaged, and the management submitted a claim to the Association's insurance carrier. During 2013, the Association received $86,650 from the insurance company and made repairs to the damaged areas.

NOTE 9 – LICENSE OF HALLWAY SPACE

During 2013, the Association licensed a portion of the common area space (hallway) for a one-time fee of $240,000. In conjunction with this transaction, the Association is charging a monthly license fee equal to .1048% of the common element expenses.

NOTE 10 – CLAIMS OR LITIGATION

From time to time, claims or matters of litigation may arise in the ordinary conduct of the Association's business. In the opinion of management, claims or litigation, if any, outstanding against the Association as of December 31, 2013 are either without merit or the losses stemming from such litigation, if any, would not have a material adverse effect on the financial position or results of operations of the Association.

NOTE 11 – SUBSEQUENT EVENTS

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

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Managers and Unit Owners of
Sample Condominium

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Sample Condominium for the years ended December 31, 2013 and 2012. The supplementary information contained on the following pages is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GREENBERG & BRENNAN, CPA's, P.C.

New York, New York
March 25, 2014

SAMPLE CONDOMINIUM

SUPPORTING SCHEDULES – STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY

	For the Years Ended December 31,	
	2013	2012
Schedule 1		
OPERATING EXPENSES		
Payroll and Related		
Wages	$ 894,081	$ 878,509
Payroll Taxes	73,418	73,207
Workers Compensation and Disability Insurance	29,567	32,600
Union Benefits *(Note 6)*	287,580	270,604
Uniforms	6,286	8,112
Other Payroll Expenses	7,039	6,715
Total Payroll and Related	1,297,971	1,269,747
Utilities		
Steam – Heat	261,285	213,966
Electricity and Gas – Net of Submetering	268,373	229,567
Meter Reading Contract	4,668	3,933
Water and Sewer Charges – Net of Submetering	67,921	114,097
Total Utilities	602,247	561,563
TOTAL OPERATING EXPENSES	$1,900,218	$1,831,310
Schedule 2		
REPAIRS AND MAINTENANCE		
Elevator	$ 29,266	$ 27,895
Plumbing	25,568	20,119
HVAC	75,420	36,712
Miscellaneous Interior Repairs	56,526	37,013
Hurricane Sandy Related Damages *(Note 8)*	96,776	–
Miscellaneous Exterior Repairs	1,377	–
Lobby Flowers, Landscaping and Decorations	28,303	18,829
Cleaning	9,029	4,155
Exterminating	5,879	5,879
Permits and Inspections	11,019	3,837
Building Supplies and Janitorial Equipment	41,744	62,423
Less: Insurance Claims *(Note 8)*	86,650	2,278
TOTAL REPAIRS AND MAINTENANCE	$294,257	$214,584

See Independent Auditors' Report on Supplementary Information and Notes to Financial Statements.

SAMPLE CONDOMINIUM

SUPPORTING SCHEDULES – STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY

	For the Years Ended December 31, 2013	2012
SCHEDULE 3		
ADMINISTRATIVE EXPENSES		
Building Insurance	$ 84,833	$ 78,677
Management	92,595	90,000
Auditing	9,000	8,850
Legal	7,757	2,306
Other Professional Fees	3,528	3,012
Telephone	12,127	11,124
Miscellaneous Administrative	13,581	12,134
TOTAL ADMINISTRATIVE EXPENSES	$ 223,421	$ 206,103
SCHEDULE 4		
TAXES		
New York State Franchise and New York City General Corporation Taxes *(Note 4)*	$ 9,680	$ 11,388
New York City Real Estate Taxes – Resident Manager's Unit	7,560	5,276
TOTAL TAXES	$ 17,240	$ 16,664

See Independent Auditors' Report on Supplementary Information and Notes to Financial Statements.