

THE CHESTERFIELD COOPERATIVE, INC
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

These financial statements
may be reproduced only
in their entirety

Goldklang & Group

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Independent Auditor's Report

Board of Directors
The Chesterfield Cooperative, Inc.
Washington, D.C.

We have audited the accompanying Balance Sheets of The Chesterfield Cooperative, Inc. as of June 30, 2010 and 2009, and the related Statements of Income, Stockholders' Equity and Cash Flows for the years then ended. These financial statements are the responsibility of the Cooperative. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. 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 the Cooperative, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 The Chesterfield Cooperative, Inc. as of June 30, 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.

The Chesterfield Cooperative, Inc. has not estimated the remaining lives and replacement costs of the common property. Therefore, a replacement reserve study that accounting principles generally accepted in the United States of America determined to be a required supplement has not been presented. This reserve study is not required to be a part of the basic financial statements. The effect of this on future assessments cannot be determined at this time.

Goldklang Group CPAs, P.C.

April 7, 2011

THE CHESTERFIELD COOPERATIVE, INC.

BALANCE SHEETS

JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 332,278	\$ 381,042
Interest-Bearing Deposits	219,680	-
Cooperative Fees Receivable - Net	699	4,188
Income Taxes Receivable	27	-
Accounts Receivable - Other	4,223	424
Prepaid Expenses	10,111	8,729
Loan Fees - Net	34,079	37,817
Property - Net	<u>2,417,032</u>	<u>2,557,078</u>
Total Assets	<u>\$ 3,018,129</u>	<u>\$ 2,989,278</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Accounts Payable	\$ 17,215	\$ 18,965
Income Taxes Payable	459	7,755
Prepaid Cooperative Fees	13,045	9,346
Mortgage/Note Payable	<u>951,250</u>	<u>965,120</u>
Total Liabilities	<u>\$ 981,969</u>	<u>\$ 1,001,186</u>
Replacement Reserves (Deficit)	\$ (734)	\$ (170,456)
Common Stock, \$.01 Per Share Par Value Issued, Authorized and Outstanding 1,000,000 Shares	10,000	10,000
Unappropriated Stockholders' Equity	<u>2,026,894</u>	<u>2,148,548</u>
Total Stockholders' Equity	<u>\$ 2,036,160</u>	<u>\$ 1,988,092</u>
Total Liabilities and Stockholders' Equity	<u>\$ 3,018,129</u>	<u>\$ 2,989,278</u>

See Accompanying Notes to Financial Statements

THE CHESTERFIELD COOPERATIVE, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>INCOME:</u>		
Assessments and Parking	\$ 709,974	\$ 709,428
Roof Rental	66,710	82,903
Bad Debt Recovery	-	1,208
Laundry	6,813	6,122
Interest	5,370	3,485
Other	8,083	4,156
Total Income	<u>\$ 796,950</u>	<u>\$ 807,302</u>
<u>EXPENSES:</u>		
Management	\$ 25,013	\$ 24,271
Legal, Audit and Tax Preparation	11,674	9,450
Insurance	29,313	27,851
Interest	60,407	61,251
Administration	8,547	1,993
Engineering Study	1,934	2,993
Telephone and Security	4,691	4,743
Utilities	161,331	179,943
Salaries and Related	34,020	33,914
Landscaping	5,519	6,766
Elevator Maintenance	7,151	6,195
Cleaning	26,115	26,161
Trash Removal	10,722	10,755
Repairs, Supplies and Maintenance	52,978	64,890
HVAC	28,887	34,557
Amortization - Loan	3,739	4,153
Real Estate Taxes	54,711	50,347
Bad Debt	20,652	-
Income Taxes	16,032	20,711
Total Expenses	<u>\$ 563,436</u>	<u>\$ 570,944</u>
Net Income before Contribution to Reserves and Depreciation	\$ 233,514	\$ 236,358
Contribution to Reserves	<u>(215,122)</u>	<u>(233,101)</u>
Net Income before Depreciation	\$ 18,392	\$ 3,257
Depreciation	<u>(157,866)</u>	<u>(150,500)</u>
Net Income (Loss)	<u>\$ (139,474)</u>	<u>\$ (147,243)</u>

See Accompanying Notes to Financial Statements

THE CHESTERFIELD COOPERATIVE, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>Replacement Reserves (Deficit)</u>	<u>Common Stock</u>	<u>Unappropriated Stockholders' Equity</u>	<u>Total Stockholders' Equity</u>
Balance as of June 30, 2008	\$ (247,466)	\$ 10,000	\$ 2,152,764	\$ 1,915,298
Addition:				
Contribution to Reserves	233,101			233,101
Deductions:				
Interior Renovation	(100,587)		100,587	
Flooring/Carpeting	(7,145)			(7,145)
Mechanical Systems	(33,610)		33,610	
Tuckpointing	(8,830)		8,830	
Security System	(4,730)			(4,730)
Supplies	(1,189)			(1,189)
Net Loss			(147,243)	(147,243)
Balance as of June 30, 2009	\$ (170,456)	\$ 10,000	\$ 2,148,548	\$ 1,988,092
Addition:				
Contribution to Reserves	215,122			215,122
Deductions:				
Interior Improvements	(24,260)			(24,260)
Boiler	(17,820)		17,820	
Tuckpointing	(3,320)			(3,320)
Net Loss			(139,474)	(139,474)
Balance as of June 30, 2010	<u>\$ (734)</u>	<u>\$ 10,000</u>	<u>\$ 2,026,894</u>	<u>\$ 2,036,160</u>

See Accompanying Notes to Financial Statements

THE CHESTERFIELD COOPERATIVE, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ (139,474)	\$ (147,243)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	157,866	150,500
Amortization	3,738	4,153
Decrease (Increase) in:		
Cooperative Fees Receivable - Net	3,489	(1,182)
Income Taxes Receivable	(27)	-
Accounts Receivable - Other	(3,799)	(424)
Prepaid Expenses	(1,382)	(36)
Increase (Decrease) in:		
Accounts Payable	(1,750)	(11,910)
Income Taxes Payable	(7,296)	4,121
Prepaid Cooperative Fees	3,699	(181)
Net Cash Flows from Operating Activities	<u>\$ 15,064</u>	<u>\$ (2,202)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Received from Assessments (Reserves)	\$ 215,122	\$ 233,101
Disbursed for Reserve Expenditures	(45,400)	(214,835)
Disbursed for Interest-Bearing Deposits	(219,680)	-
Net Cash Flows from Investing Activities	<u>\$ (49,958)</u>	<u>\$ 18,266</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Disbursed for Mortgage Payable - Principal Payments	<u>\$ (13,870)</u>	<u>\$ (13,025)</u>
Net Change in Cash and Cash Equivalents	\$ (48,764)	\$ 3,039
Cash and Cash Equivalents at Beginning of Year	<u>381,042</u>	<u>378,003</u>
Cash and Cash Equivalents at End of Year	<u>\$ 332,278</u>	<u>\$ 381,042</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash Paid for Interest	<u>\$ 60,407</u>	<u>\$ 61,251</u>
Cash Paid for Income Taxes	<u>\$ 23,962</u>	<u>\$ 16,617</u>

See Accompanying Notes to Financial Statements

THE CHESTERFIELD COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

NOTE 1 - NATURE OF OPERATIONS:

The Cooperative is organized under the laws of the State of Delaware for the purposes of preserving and maintaining the common property of the Cooperative. The Cooperative is located in Washington, D.C. at 3315 Wisconsin Avenue, N.W. and consists of 66 units.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The Cooperative uses the accrual basis of accounting for financial reporting whereby revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) Members' Assessments - Cooperative members are subject to assessments to provide funds for the Cooperative's operating expenses, future capital acquisitions, and major repairs and replacements. Cooperative Fees receivable at the balance sheet date represent fees due from shareholders. The Cooperative's policy is to retain legal counsel and take legal action against shareholders whose assessments are delinquent. Any excess assessments at year-end are retained by the Cooperative for use in future years. The Cooperative utilizes the allowance method of accounting for bad debt.

C) Depreciation - Depreciation is computed over the estimated useful lives of the assets as follows:

<u>Life</u>	<u>Method</u>	
Building and Improvements	30 Years	125% Declining Balance
Building Renovation Costs	30 Years	125% Declining Balance
Capital Improvements	5-10 Years	Straight-Line

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

THE CHESTERFIELD COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES:

The Cooperative's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

The Cooperative has not obtained a formal reserve study estimating the remaining useful lives and the replacement costs of the components of common property.

The Cooperative's board and management have determined replacement reserve needs through the budget process. For 2010, the Cooperative budgeted to contribute \$215,122 to reserves.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed the Board of Directors, on behalf of the Cooperative, may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of June 30, 2010 and 2009, the Cooperative had a deficit of \$734 and \$170,456, respectively, in replacement reserves.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Cooperative files as a nonexempt cooperative under subchapter T (IRC Sections 1381 - 1388). The Cooperative's income is allocated between patronage and non-patronage income. Non-patronage income, such as rental income and other third party income is considered taxable at the normal corporate rates. Income derived from shareholders and interest income is considered patronage income. Under certain circumstance, patronage income may be returned to shareholders through patronage dividends. For fiscal years 2010 and 2009, the Cooperative's financial statements reflect a federal and state income tax expense of \$9,573 and \$6,459, and \$12,815 and \$7,896, respectively.

Effective July 1, 2009, the Cooperative implemented Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) 740-10, formerly FIN 48, Accounting for Uncertainty in Income Taxes. The Cooperative's policy is to recognize any tax penalties and interest as an expense when incurred. For the years

THE CHESTERFIELD COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(CONTINUED)

NOTE 4 - INCOME TAXES: (CONTINUED)

ended June 30, 2010 and 2009, the Cooperative incurred \$568 in penalties and interest related to income taxes. The Cooperative's federal and state tax returns for the past three years remain subject to examination by the Internal Revenue Service and the District of Columbia.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of June 30, 2010, the Cooperative maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>	<u>Interest- Bearing Deposits</u>	<u>Total</u>
Suntrust	Checking	\$ 108,829	\$ -	\$ 108,829
Suntrust	Money Market	150,654		150,654
Wells Fargo	Checking	50		50
Wells Fargo	Money Market	72,745		72,745
Capital One	Certificate of Deposit		109,880	109,880
Discover	Certificate of Deposit		<u>109,800</u>	<u>109,800</u>
	Totals	<u>\$ 332,278</u>	<u>\$ 219,680</u>	<u>\$ 551,958</u>

Balances at banks are insured by the FDIC for up to \$250,000 per financial institution. Amounts in excess of the insured limits were approximately \$10,496 and \$16,846 as of June 30, 2010 and 2009, respectively.

The Cooperative had funds maintained in a Wachovia money fund. Although the value per share of this account has not changed since it was opened and its goal is to maintain a per share value of \$1, this account is subject to market fluctuation risk. Therefore, the market fluctuation risk as of June 30, 2010 and 2009 was \$0 and \$266,846, respectively.

NOTE 6 - COOPERATIVE FEES RECEIVABLE - NET:

The Cooperative utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are uncollectible. Under the allowance method, collection efforts may continue, and recovery of amounts previously written off are recognized as income in the year of collection.

THE CHESTERFIELD COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(CONTINUED)

NOTE 6 - COOPERATIVE FEES RECEIVABLE - NET: (CONTINUED)

	<u>2010</u>	<u>2009</u>
Cooperative Fees Receivable	\$ 21,351	\$ 4,188
Less: Allowance for Doubtful Cooperative Fees	<u>(20,652)</u>	<u>(-)</u>
Cooperative Fees Receivable - Net	<u>\$ 699</u>	<u>\$ 4,188</u>

NOTE 7 - PROPERTY - NET:

Property is stated at cost. Expenditures for maintenance, repairs and relatively minor expenditures for betterments that do not extend the life of an asset beyond its original estimated normal life are charged to expense. Major expenditures for betterments, which extend the life of an asset, are capitalized.

	<u>2010</u>	<u>2009</u>
Land	\$ 475,297	\$ 475,297
Building and Improvements	4,034,384	4,016,564
Building Renovation Costs	358,510	358,510
Less: Accumulated Depreciation	<u>(2,451,159)</u>	<u>(2,293,293)</u>
Property - Net	<u>\$ 2,417,032</u>	<u>\$ 2,557,078</u>

NOTE 8 - LOAN FEES - NET:

During fiscal year 2005, a loan origination fee was paid when the Cooperative refinanced its underlying mortgage with National Cooperative Bank (NCB). During fiscal year 2006, the Cooperative incurred additional loan origination fees when it decided to again refinance its existing loan with (NCB) in fiscal year 2007. The loan origination fee is being amortized on a straight-line basis over the term of the loan, which is ten years.

	<u>2010</u>	<u>2009</u>
Loan Fees	\$ 55,569	\$ 55,569
Less: Accumulated Amortization	<u>(21,490)</u>	<u>(17,752)</u>
Loan Fees - Net	<u>\$ 34,079</u>	<u>\$ 37,817</u>

THE CHESTERFIELD COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(CONTINUED)

NOTE 9 - PERMANENT FINANCING:

In 1979, the Cooperative obtained permanent financing through a note received from John Hancock Mutual Life Insurance Company in the amount of \$3,100,000, which is secured by a first deed of trust on the land and building. The note was payable in monthly installments of \$26,634 over 300 months at an interest rate of nine and three-quarters percent. The Cooperative refinanced the mortgage with a line of credit during fiscal year 2004.

On February 18, 2005, the Cooperative once again refinanced its mortgage with a line of credit in the amount of \$1,200,000. The Cooperative was only required to make interest-only monthly payments for this line of credit.

In fiscal year 2007, the Cooperative refinanced their existing line of credit into a fixed interest rate mortgage in the amount of \$1,000,000. The mortgage is secured by a first deed of trust on the land and building. The fixed interest rate is 6.3%. Payments on the loan are structured using a 30-year amortization schedule. The Cooperative will make payments on the loan for 8½ years at which time the Cooperative plans to pay off the loan using accumulated reserves.

NOTE 10 - MORTGAGE/NOTE PAYABLE:

As of June 30, 2010 and 2009, the principal outstanding on the loan was \$951,250 and \$965,120, respectively. Future principal curtailments on the loan are as follows:

2011	\$ 15,727
2012	16,748
2013	17,834
2014	18,990
2015	20,222
Thereafter	<u>861,729</u>
Total	<u>\$ 951,250</u>

NOTE 11 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through April 7, 2011, the date the financial statements were available to be issued.

Subsequent to year end, the Association entered into contracts for a new flue liner at a cost of \$14,550 and pointing repairs at a cost of \$20,600.