

HERITAGE HILLS SOCIETY, LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

HERITAGE HILLS SOCIETY, LTD.

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Bogush & Grady
CERTIFIED PUBLIC ACCOUNTANTS, LLP

48 W. Market Street
Rhinebeck, NY 12572
T: 845.876.4911
F: 845.876.6002
www.bogushgradycpas.com

Terence N. Bogush, CPA
John A. Grady, CPA

Anne M. Kief
Marie A. Bailly

Members:
American Institute of Certified Public Accountants
NYS Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of
Heritage Hills Society, LTD.

We have audited the accompanying financial statements of Heritage Hills Society, LTD., which comprise the balance sheet as of December 31, 2014, and the related statements of revenues and expenses, changes in homeowners' equity and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of Heritage Hills Society, LTD. as of December 31, 2013, were audited by other auditors whose report, dated May 6, 2014, expressed an unqualified opinion on those 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.

Auditor's 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 auditor's 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 auditor considers 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 2014 financial statements referred to above present fairly, in all material respects, the financial position of Heritage Hills Society, LTD. as of December 31, 2014, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the information about the estimates of future costs of 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 the missing information.

BOGUSH & GRADY CPAs LLP

Rhinebeck, New York
May 28, 2015

HERITAGE HILLS SOCIETY, LTD.
BALANCE SHEETS
December 31, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash - operating	\$ 473,191	\$ 503,315
Cash - reserve	564,308	765,692
Assessments receivable, less allowance for uncollectible assessments of \$163,921 and \$142,675, respectively	77,920	83,284
Prepaid expenses	31,263	56,857
Total current assets	1,146,682	1,409,148
Property and equipment, net of accumulated depreciation	4,546,671	3,901,173
Other assets:		
Deposits	3,182	3,182
Total assets	\$ 5,696,535	\$ 5,313,503

LIABILITIES AND HOMEOWNERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$ 109,923	\$ 97,112
Current maturities of long-term debt	130,952	104,047
Prepaid common charges	88,310	90,231
Total current liabilities	329,185	291,390
Long-term debt, net of current portion	495,481	588,528
Total liabilities	824,666	879,918
Homeowners' equity:		
Reserve	699,788	765,692
Operating	4,172,081	3,667,893
	4,871,869	4,433,585
Total liabilities and homeowners' equity	\$ 5,696,535	\$ 5,313,503

See auditor's report. See notes to financial statements.

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF REVENUES AND EXPENSES
for the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues:		
Society fees	\$ 4,221,945	\$ 3,996,618
Interest income	4,852	4,747
Other operating revenues	<u>52,541</u>	<u>49,249</u>
Total revenues	<u>4,279,338</u>	<u>4,050,614</u>
Expenses:		
Lake lodge	90,537	86,375
Fitness center	163,112	171,954
Activities building	99,508	78,933
Tennis and platform	11,317	23,980
Pool	281,208	201,157
Transportation	331,816	333,799
Roads and grounds	1,006,149	835,665
General and administrative	<u>1,612,745</u>	<u>1,592,282</u>
	<u>3,596,392</u>	<u>3,324,145</u>
Excess of revenues over expenses before depreciation and income taxes	682,946	726,469
Depreciation	<u>242,473</u>	<u>229,975</u>
Excess of revenues over expenses before income taxes	440,473	496,494
Income taxes (credits)	<u>2,189</u>	<u>(23,382)</u>
Excess of revenues over expenses	<u>\$ 438,284</u>	<u>\$ 519,876</u>

See auditor's report. See notes to financial statements.

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF HOMEOWNERS' EQUITY
for the years ended December 31, 2014 and 2013

	<u>Reserve</u>	<u>Operating</u>	<u>Total</u>
Balance at December 31, 2012	\$ 390,778	\$ 3,522,931	\$ 3,913,709
Excess (deficiency) of revenues over expenses	735,010	(215,134)	519,876
Allocated to future major repairs and replacements:			
Operating transfers in (out)	50,000	(50,000)	-
Capital improvements and repairs	(312,770)	312,770	-
Principal payments	<u>(97,326)</u>	<u>97,326</u>	<u>-</u>
Balance at December 31, 2013	765,692	3,667,893	4,433,585
Excess of revenues over expenses	769,496	(331,212)	438,284
Allocated to future major repairs and replacements:			
Operating transfers in (out)	120,000	(120,000)	-
Capital improvements and repairs	(912,958)	912,958	-
Principal payments	<u>(42,442)</u>	<u>42,442</u>	<u>-</u>
Balance at December 31, 2014	<u>\$ 699,788</u>	<u>\$ 4,172,081</u>	<u>\$ 4,871,869</u>

See auditor's report. See notes to financial statements.

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 438,284	\$ 519,876
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	242,473	229,975
Assessments receivable - net	5,364	(25,255)
Prepaid expenses	25,594	(23,297)
Accounts payable and accrued expenses	12,811	(20,870)
Prepaid common charges	(1,921)	24,213
Total adjustments	<u>284,321</u>	<u>184,766</u>
Net cash provided by operating activities	<u>722,605</u>	<u>704,642</u>
Cash flows from investing activities:		
Fixed asset additions	<u>(887,969)</u>	<u>(244,644)</u>
Cash flows from financing activities:		
Long-term debt proceeds	700,000	-
Payments of long-term debt	<u>(766,144)</u>	<u>(97,326)</u>
Net cash provided (used) by financing activities	<u>(66,144)</u>	<u>(97,326)</u>
Net increase (decrease) in cash and cash equivalents	(231,508)	362,672
Cash and cash equivalents at beginning of year	<u>1,269,007</u>	<u>906,335</u>
Cash and cash equivalents at end of year	<u>\$ 1,037,499</u>	<u>\$ 1,269,007</u>

Supplementary Information to the Statement of Cash Flows:

Cash paid for, interest	\$ <u>43,181</u>	\$ <u>45,288</u>
Cash paid for, income taxes	\$ <u>2,189</u>	\$ <u>(23,382)</u>

See auditor's report. See notes to financial statements.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization:

Heritage Hills is located in Somers, New York. Heritage Hills Society, Ltd. (the "Association") owns, operates and maintains the real estate at the main entrance to Heritage Hills and the land upon which the Activities Center, the Lake Lodge, the swimming pools and the tennis courts are located. In addition the Association maintains the A and B roads and storm water basins and outdoor lighting fixtures located thereon.

2. Date of Management's Review:

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 28, 2015, the date that the financial statements were available to be issued.

3. Summary of Significant Accounting Policies:

Basis of accounting:

The Association prepares its financial statements using the accrual basis of accounting. This method of accounting records revenues to the Association, such as common charges, when the amounts are due, regardless of when actually received from unit owners. Expenses of the Association are likewise recorded when incurred for goods and services rendered to the Association and not when actually paid.

Fund accounting:

The accounts of the Association are organized on the basis of funds, each of which is considered a separate accounting entity. Association resources are allocated to, and accounted for in, individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds utilized by the Association are as follows:

Operating Funds - general funds are utilized as the primary operating funds of the association.

Reserve Funds - reserve funds are utilized to account for financial resources to be used for the acquisition or construction of capital improvements or major repairs.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued):

Cash equivalents:

For purposes of the statement of cash flows, the Association considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. There were no cash equivalents at December 31, 2014 and 2013.

Use of estimates:

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 reported period. Actual results could differ from those estimates.

Property and equipment:

Property and equipment are stated at cost. Depreciation is calculated using the straight-line or accelerated methods based upon the following estimated useful lives:

	Years
Buildings and improvements	27.5-39
Equipment and furnishings	5-10
Motor vehicles	3-10

Expenditures for maintenance and repairs are charged to expense and renewals and betterments are capitalized. Upon sale or retirement, the cost of the asset and the related accumulated depreciation are removed from the accounts, and the resulting gains or losses are included in the results of operations.

The following is a summary of property and equipment as of December 31, 2014 and 2013:

	2014	2013
Land	\$ 164,206	\$ 164,206
Buildings and improvements	6,759,816	5,926,051
Equipment and furnishings	752,246	752,246
Vehicles	521,756	467,550
	8,198,024	7,310,053
Less accumulated depreciation	3,651,353	3,408,880
	\$ 4,546,671	\$ 3,901,173

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued):

Impairment of long-lived assets:

The Association reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing a review for impairment, the Association compares the carrying value of the asset with their estimated future undiscounted cash flows. If it is determined that impairment has occurred, the loss would be recognized during that period. The impairment loss is calculated as the difference between the asset carrying values and the present values of the estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. As a result of its review, the Association does not believe that any material impairment currently exists related to its long-lived assets.

Income taxes:

The Association files its tax return as a Cooperative Corporation. Cooperative corporations generally are taxed only on nonmembership income, such as interest. Earnings from members, if any, may be excluded from taxation if certain elections are made.

The Association recognizes the effects of tax positions only when they are more likely than not to be sustained. At December 31, 2014, the Association did not have any unrecognized tax benefits or liabilities. The Association operates in the United States and in state and local jurisdictions. The three previous years remain subject to examination by tax authorities. There are presently no ongoing income tax examinations.

Member assessments:

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are sixty days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2014 and 2013, the Association had delinquent assessments of \$241,841 and \$225,959, respectively, and an allowance for doubtful accounts of \$163,921 and \$142,675, respectively.

Reclassifications:

Certain items have been reclassified to conform to the current year's presentation.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

4. Activity Clubs:

The Association sponsors a variety of community activity clubs. Activity clubs revenue, expenses and net assets are reported to the Association on an annual basis from the treasurers of the clubs. These activity funds are not comingled with, and do not affect, the financial affairs or condition of Heritage Hills Society and therefore are not included in these financial statements.

5. Long-Term Debt:

The following is a summary of long-term debt as of December 31, 2014 and 2013:

	2014	2013
Loan payable to a bank in monthly installments of \$5,725 including interest at 5.99% per annum through April 2025, secured by lien on future common charges	\$ -	\$ 564,650
Loan payable to a bank in monthly installments of \$6,159 including interest at 5.99% per annum through September 2015, secured by a lien on future common charges	-	127,925
Refinance of previous two loans. Loan payable to a bank in monthly installments of \$13,082 including interest at 4.53% per annum through May 2019, secured by a lien on future common charges	626,433	-
	626,433	692,575
Less current maturities	130,952	104,047
	\$ 495,481	\$ 588,528

Approximate maturities of long-term debt are as follows for the years ending December 31,:

2015	\$ 130,952
2016	137,033
2017	143,523
2018	150,256
2019	64,669
	\$ 626,433

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

6. Concentrations of credit risk:

Financial instruments that potentially expose the Association to concentrations of credit risk consist primarily of cash and cash equivalents in financial institutions which, from time to time, exceed federal insurance limits.

7. Future Major Repairs and Replacements:

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. The Association has not conducted a study to estimate the remaining useful lives and the replacement costs of the common property components. Accumulated funds, which aggregate approximately \$699,788 as of December 31, 2014, are held in separate accounts and are generally not available for operating purposes. It is the Association's policy to allocate income earned on such funds to the reserve funds. If significant major repairs and replacements are deemed to be needed, the amounts accumulated in the replacement fund may not be adequate to meet these needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. The effects on future assessments have not been determined as of the date of this report.

8. Reserve Funds Activity:

The following is a summary of the reserve funds activity for the year ended December 31, 2014:

Fund balance - beginning of year		\$	765,692
Additions to reserve:			
Society fees	\$	785,200	
Transfers from operating fund		120,000	
Interest and other income		<u>3,608</u>	908,808
Fund expenditures:			
Capital improvements and repairs		912,958	
Loan payments		61,261	
Bank charges		<u>493</u>	<u>(974,712)</u>
Fund balance - end of year		\$	<u><u>699,788</u></u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2014 and 2013

Schedule 1 - Other Operating Revenues	<u>2014</u>	<u>2013</u>
Late fees	\$ 25,526	\$ 16,066
Other	27,015	33,183
	<u>\$ 52,541</u>	<u>\$ 49,249</u>

Schedule 2 - Lake Lodge Expenses		
Mortgage interest	\$ 43,181	\$ 45,288
Repairs and maintenance	16,358	11,481
Furnishings and equipment	950	4,939
Electricity	10,435	7,492
Water and sewer	1,352	-
Communication	1,436	-
Oil and propane	16,825	17,175
	<u>\$ 90,537</u>	<u>\$ 86,375</u>

Schedule 3 - Fitness Center Expenses		
Contract labor	\$ 97,101	\$ 102,523
Electricity	11,675	6,333
Oil and propane	23,085	37,682
Water and sewer	2,990	-
Communication	2,118	-
Real estate taxes	437	435
Repairs and maintenance	25,259	21,473
Furnishings and equipment	447	1,233
Cleaning and building maintenance	-	2,275
	<u>\$ 163,112</u>	<u>\$ 171,954</u>

Schedule 4 - Activities Building Expenses		
Electricity	\$ 33,573	\$ 18,375
Oil and propane	22,985	12,303
Water and sewer	2,321	-
Communication	9,940	-
Repairs and maintenance	30,689	30,720
Cleaning and building maintenance	-	17,535
	<u>\$ 99,508</u>	<u>\$ 78,933</u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2014 and 2013

Schedule 5- Tennis and Platform Expenses	2014	2013
Electricity	\$ 1,068	\$ 1,026
Oil and propane	4,753	5,552
Repairs and maintenance	5,496	17,402
	\$ 11,317	\$ 23,980

Schedule 6 - Pool Expenses		
Contract labor	\$ 131,152	\$ 95,329
Contracted services	34,682	-
Supplies	17,655	31,459
Repairs and maintenance	39,891	28,872
Furnishings and equipment	9,907	9,395
Water and sewer	11,580	-
Communication	1,616	-
Electricity	8,288	10,821
Oil and propane	26,437	25,281
	\$ 281,208	\$ 201,157

Schedule 7 - Transportation Expenses		
Contracted services	\$ 314,403	\$ 320,857
Fuel	10,818	12,797
Repairs and maintenance	6,595	145
	\$ 331,816	\$ 333,799

Schedule 8 - Roads and Grounds Expenses		
Contracted services	\$ 378,184	\$ 347,525
Winter/summer program	378,044	320,000
Road maintenance and paving	52,108	64,649
Street light maintenance	71,253	67,123
Street light electricity	68,938	(2,192)
Water and sewer	-	17,900
Landscape maintenance	49,960	19,118
Storm sewer maintenance	7,662	1,542
	\$ 1,006,149	\$ 835,665

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2014 and 2013

Schedule 8- General and Administrative Expenses	2014	2013
Contract labor	\$ 137,533	\$ 210,768
Security	763,991	751,624
Management fees	259,958	317,612
Professional fees	72,967	47,677
Insurance	113,299	97,059
Payroll taxes and employee benefits	144,370	53,596
Office supplies and expenses	66,315	76,320
Materials and supplies	24,881	9,612
Telephone	-	15,768
Community activities	18,654	7,806
Refuse removal	4,113	4,435
Permits and fees	6,664	-
Dues and subscriptions	-	5
	\$ 1,612,745	\$ 1,592,282

See auditor's report.