



HERITAGE HILLS SOCIETY, LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2016 and 2015

HERITAGE HILLS SOCIETY, LTD.

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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 sheets as of December 31, 2016 and 2015, and the related statements of revenues and expenses, changes in homeowners' 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.

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 financial statements referred to above present fairly, in all material respects, the financial position of Heritage Hills Society, LTD. as of December 31, 2016 and 2015, 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.

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 8, 2017

HERITAGE HILLS SOCIETY, LTD.
BALANCE SHEETS
December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
Current assets:		
Cash - operating	\$ 91,017	\$ 237,865
Cash - reserve	847,290	899,357
Assessments receivable, less allowance for uncollectible assessments of \$115,000 and \$138,484, respectively	106,814	132,007
Prepaid expenses	<u>52,760</u>	<u>29,532</u>
Total current assets	1,097,881	1,298,761
Property and equipment, net of accumulated depreciation	5,520,179	4,910,258
Other assets:		
Deposits	<u>3,182</u>	<u>3,182</u>
Total assets	<u>\$ 6,621,242</u>	<u>\$ 6,212,201</u>
LIABILITIES AND HOMEOWNERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 111,929	\$ 287,675
Current maturities of long-term debt	143,523	137,033
Prepaid common charges	<u>96,997</u>	<u>83,228</u>
Total current liabilities	352,449	507,936
Long-term debt, net of current portion	<u>214,964</u>	<u>358,365</u>
Total liabilities	<u>567,413</u>	<u>866,301</u>
Homeowners' equity:		
Reserve	827,794	880,217
Operating	<u>5,226,035</u>	<u>4,465,683</u>
	<u>6,053,829</u>	<u>5,345,900</u>
Total liabilities and homeowners' equity	<u>\$ 6,621,242</u>	<u>\$ 6,212,201</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF REVENUES AND EXPENSES
for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Society fees	\$ 4,576,983	\$ 4,404,280
Interest income	3,278	3,952
Other operating revenues	103,385	75,714
Total revenues	<u>4,683,646</u>	<u>4,483,946</u>
Expenses:		
Lake lodge	57,429	68,916
Fitness center	129,342	179,281
Activities building	61,767	100,600
Tennis and platform	22,251	14,749
Pool	316,479	332,980
Transportation	324,835	328,398
Roads and grounds	984,999	1,151,169
General and administrative	1,749,635	1,568,049
	<u>3,646,737</u>	<u>3,744,142</u>
Excess of revenues over expenses before depreciation and income taxes	1,036,909	739,804
Depreciation	<u>326,567</u>	<u>272,414</u>
Excess of revenues over expenses before income taxes	710,342	467,390
Income taxes (credits)	<u>2,413</u>	<u>(6,641)</u>
Excess of revenues over expenses	<u>\$ 707,929</u>	<u>\$ 474,031</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF HOMEOWNERS' EQUITY
for the years ended December 31, 2016 and 2015

	<u>Reserve</u>	<u>Operating</u>	<u>Total</u>
Balance at December 31, 2014	\$ 699,788	\$ 4,172,081	\$ 4,871,869
Excess (deficiency) of revenues over expenses	870,897	(396,866)	474,031
Allocated to future major repairs and replacements:			
Operating transfers in (out)	(33,744)	33,744	-
Loan proceeds	32,500	(32,500)	-
Capital improvements and repairs	(656,724)	656,724	-
Principal payments	<u>(32,500)</u>	<u>32,500</u>	<u>-</u>
Balance at December 31, 2015	880,217	4,465,683	5,345,900
Excess (deficiency) of revenues over expenses	829,983	(122,054)	707,929
Allocated to future major repairs and replacements:			
Operating transfers in (out)	54,084	(54,084)	-
Capital improvements and repairs	<u>(936,490)</u>	<u>936,490</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 827,794</u>	<u>\$ 5,226,035</u>	<u>\$ 6,053,829</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ <u>707,929</u>	\$ <u>474,031</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	326,567	272,414
Assessments receivable - net	25,193	(54,087)
Prepaid expenses	(23,228)	1,731
Accounts payable and accrued expenses	(175,746)	177,754
Prepaid common charges	13,769	(5,082)
Total adjustments	<u>166,555</u>	<u>392,730</u>
Net cash provided by operating activities	<u>874,484</u>	<u>866,761</u>
Cash flows from investing activities:		
Fixed asset additions	<u>(936,488)</u>	<u>(636,002)</u>
Cash flows from financing activities:		
Long-term debt proceeds	-	32,500
Payments of long-term debt	<u>(136,911)</u>	<u>(163,536)</u>
Net cash provided (used) by financing activities	<u>(136,911)</u>	<u>(131,036)</u>
Net increase (decrease) in cash and cash equivalents	(198,915)	99,723
Cash and cash equivalents at beginning of year	<u>1,137,222</u>	<u>1,037,499</u>
Cash and cash equivalents at end of year	<u>\$ <u>938,307</u></u>	<u>\$ <u>1,137,222</u></u>

Supplementary Information to the Statement of Cash Flows:

Cash paid for, interest	\$ <u>20,076</u>	\$ <u>26,873</u>
Cash paid for, income taxes	\$ <u>3,435</u>	\$ <u>65</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 8, 2017, 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, 2016 and 2015.

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, 2016 and 2015:

	2016	2015
Land	\$ 164,206	\$ 164,206
Buildings and improvements	8,227,445	7,347,320
Equipment and furnishings	752,246	752,246
Vehicles	626,616	570,253
	9,770,513	8,834,025
Less accumulated depreciation	4,250,334	3,923,767
	\$ 5,520,179	\$ 4,910,258

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, 2016, 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.

The Association's income tax returns are subject to examination by taxing authorities for three years after the returns are filed. The Association's income tax returns for 2014, 2015 and 2016 remain open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

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, 2016 and 2015, the Association had delinquent assessments of \$221,814 and \$270,491, respectively, and an allowance for doubtful accounts of \$115,000 and \$138,484, respectively.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued):

Reclassifications:

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

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, 2016 and 2015:

	2016	2015
The Association secured a \$200,000 revolving line of credit with a bank. The Association used \$32,500 to purchase new fitness equipment. Monthly installments of \$740.11 including interest at 4.36% per annum through March 2019. This was paid off in November 2015.	\$ -	\$ -
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	358,487	495,398
	358,487	495,398
Less current maturities	143,523	137,033
	\$ 214,964	\$ 358,365

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

2017	\$ 143,523
2018	150,256
2019	64,708
	\$ 358,487

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 conducted a study to estimate the remaining useful lives and the replacement costs of the common property components. Accumulated funds, which aggregate approximately \$727,810 as of December 31, 2016, 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, 2016:

Fund balance - beginning of year		\$	880,217
Additions to reserve:			
Society fees	\$	827,000	
Transfers from operating fund		54,084	
Interest and other income		<u>2,983</u>	884,067
Fund expenditures:			
Capital improvements and repairs		936,490	
Transfers to operating fund		<u>-</u>	<u>(936,490)</u>
Fund balance - end of year		\$	<u><u>827,794</u></u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2016 and 2015

Schedule 1 - Other Operating Revenues

	<u>2016</u>	<u>2015</u>
Late fees	\$ 23,504	\$ 21,393
Other	79,881	54,321
	<u>\$ 103,385</u>	<u>\$ 75,714</u>

Schedule 2 - Lake Lodge Expenses

Mortgage interest	\$ 20,076	\$ 26,873
Repairs and maintenance	19,042	15,450
Furnishings and equipment	537	-
Electricity	5,549	9,598
Water and sewer	1,376	1,287
Communication	2,551	2,355
Oil and propane	8,298	13,353
	<u>\$ 57,429</u>	<u>\$ 68,916</u>

Schedule 3 - Fitness Center Expenses

Personal services	\$ 100,193	\$ 95,835
Electricity	4,649	10,148
Oil and propane	9,733	15,598
Water and sewer	1,849	2,572
Communication	690	811
Real estate taxes	448	447
Repairs and maintenance	11,780	51,039
Furnishings and equipment	-	2,831
	<u>\$ 129,342</u>	<u>\$ 179,281</u>

Schedule 4 - Activities Building Expenses

Electricity	\$ 12,355	\$ 9,830
Oil and propane	12,153	18,718
Water and sewer	3,402	2,584
Communication	11,355	12,861
Repairs and maintenance	20,639	32,748
Furnishings and equipment	1,863	23,859
	<u>\$ 61,767</u>	<u>\$ 100,600</u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2016 and 2015

Schedule 5- Tennis and Platform Expenses	2016	2015
Electricity	\$ 404	\$ 786
Oil and propane	2,972	1,799
Repairs and maintenance	18,875	12,164
	\$ 22,251	\$ 14,749

Schedule 6 - Pool Expenses		
Contract labor	\$ 140,371	\$ 145,660
Contracted services	42,925	42,906
Supplies	7,697	21,793
Repairs and maintenance	65,109	60,222
Furnishings and equipment	16,088	19,960
Water and sewer	18,766	7,427
Communication	1,588	3,777
Electricity	9,778	10,331
Oil and propane	14,157	20,904
	\$ 316,479	\$ 332,980

Schedule 7 - Transportation Expenses		
Contracted services	\$ 317,631	\$ 317,631
Fuel	3,479	5,707
Repairs and maintenance	3,725	5,060
	\$ 324,835	\$ 328,398

Schedule 8 - Roads and Grounds Expenses		
Personal services	\$ 354,476	\$ 374,855
Winter/summer program	493,925	612,523
Road maintenance and paving	30,672	7,429
Street light maintenance	6,973	49,230
Street light electricity	36,380	52,270
Landscape maintenance	62,573	54,862
Storm water maintenance	-	-
	\$ 984,999	\$ 1,151,169

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2016 and 2015

Schedule 9- General and Administrative Expenses	2016	2015
Personal services	\$ 142,189	\$ 145,819
Security	829,239	795,033
Management fees	283,551	260,141
Professional fees	68,467	48,987
Insurance	101,451	90,962
Payroll taxes and employee benefits	152,639	128,306
Office supplies and expenses	52,979	43,570
Materials and supplies	35,603	29,737
Community activities	23,654	15,257
Refuse removal	4,188	4,809
Permits and fees	3,444	5,428
Bad debt	52,231	-
	\$ 1,749,635	\$ 1,568,049

See auditor's report.