



HERITAGE HILLS SOCIETY, LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2015 and 2014

HERITAGE HILLS SOCIETY, LTD.

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Revenues and Expenses	4
Statements of Homeowners' Equity	5
Statements of Cash Flows	6
Notes to Financial Statements	7-11
Supporting Schedules	12-14



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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, 2015 and 2014, 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, 2015 and 2014, 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 23, 2016

HERITAGE HILLS SOCIETY, LTD.
BALANCE SHEETS
December 31, 2015 and 2014

ASSETS

	2015	2014
Current assets:		
Cash - operating	\$ 237,865	\$ 473,191
Cash - reserve	899,357	564,308
Assessments receivable, less allowance for uncollectible assessments of \$138,484 and \$163,921, respectively	132,007	77,920
Prepaid expenses	29,532	31,263
Total current assets	1,298,761	1,146,682
Property and equipment, net of accumulated depreciation	4,910,258	4,546,671
Other assets:		
Deposits	3,182	3,182
Total assets	\$ 6,212,201	\$ 5,696,535

LIABILITIES AND HOMEOWNERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$ 287,675	\$ 109,923
Current maturities of long-term debt	137,033	130,952
Prepaid common charges	83,228	88,310
Total current liabilities	507,936	329,185
Long-term debt, net of current portion	358,365	495,481
Total liabilities	866,301	824,666
Homeowners' equity:		
Reserve	880,217	699,788
Operating	4,465,683	4,172,081
	5,345,900	4,871,869
Total liabilities and homeowners' equity	\$ 6,212,201	\$ 5,696,535

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF REVENUES AND EXPENSES
for the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Revenues:		
Society fees	\$ 4,404,280	\$ 4,221,945
Interest income	3,952	4,852
Other operating revenues	75,714	52,541
Total revenues	<u>4,483,946</u>	<u>4,279,338</u>
 Expenses:		
Lake lodge	68,916	90,537
Fitness center	179,281	163,112
Activities building	100,600	99,508
Tennis and platform	14,749	11,317
Pool	332,980	281,208
Transportation	328,398	331,816
Roads and grounds	1,151,169	1,006,149
General and administrative	1,568,049	1,612,745
	<u>3,744,142</u>	<u>3,596,392</u>
 Excess of revenues over expenses before depreciation and income taxes	739,804	682,946
 Depreciation	<u>272,414</u>	<u>242,473</u>
 Excess of revenues over expenses before income taxes	467,390	440,473
 Income taxes (credits)	<u>(6,641)</u>	<u>2,189</u>
 Excess of revenues over expenses	<u>\$ 474,031</u>	<u>\$ 438,284</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF HOMEOWNERS' EQUITY
for the years ended December 31, 2015 and 2014

	<u>Reserve</u>	<u>Operating</u>	<u>Total</u>
Balance at December 31, 2013	\$ 765,692	\$ 3,667,893	\$ 4,433,585
Excess (deficiency) 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	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	<u>\$ 880,217</u>	<u>\$ 4,465,683</u>	<u>\$ 5,345,900</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF CASH FLOWS
for the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 474,031	\$ 438,284
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation	272,414	242,473
Assessments receivable - net	(54,087)	5,364
Prepaid expenses	1,731	25,594
Accounts payable and accrued expenses	177,754	12,811
Prepaid common charges	(5,082)	(1,921)
Total adjustments	<u>392,730</u>	<u>284,321</u>
Net cash provided by operating activities	<u>866,761</u>	<u>722,605</u>
Cash flows from investing activities:		
Fixed asset additions	<u>(636,002)</u>	<u>(887,969)</u>
Cash flows from financing activities:		
Long-term debt proceeds	32,500	700,000
Payments of long-term debt	<u>(163,536)</u>	<u>(766,144)</u>
Net cash provided (used) by financing activities	<u>(131,036)</u>	<u>(66,144)</u>
Net increase (decrease) in cash and cash equivalents	99,723	(231,508)
Cash and cash equivalents at beginning of year	<u>1,037,499</u>	<u>1,269,007</u>
Cash and cash equivalents at end of year	<u>\$ 1,137,222</u>	<u>\$ 1,037,499</u>

Supplementary Information to the Statement of Cash Flows:

Cash paid for, interest	\$ <u>26,873</u>	\$ <u>43,181</u>
Cash paid for, income taxes	\$ <u>65</u>	\$ <u>2,189</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 23, 2016, 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, 2015 and 2014.

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:

	<u>Years</u>
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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 164,206	\$ 164,206
Buildings and improvements	7,347,320	6,759,816
Equipment and furnishings	752,246	752,246
Vehicles	570,253	521,756
	<u>8,834,025</u>	<u>8,198,024</u>
Less accumulated depreciation	3,923,767	3,651,353
	<u>\$ 4,910,258</u>	<u>\$ 4,546,671</u>

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, 2015, 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, 2015 and 2014, the Association had delinquent assessments of \$270,491 and \$241,841, respectively, and an allowance for doubtful accounts of \$138,484 and \$163,921, 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, 2015 and 2014:

	2015	2014
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	495,398	626,433
	495,398	626,433
Less current maturities	137,033	130,952
	\$ 358,365	\$ 495,481

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

2016	\$ 137,033
2017	143,523
2018	150,256
2019	64,586
	\$ 495,398

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 \$880,217 as of December 31, 2015, 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, 2015:

Fund balance - beginning of year		\$	699,788
Additions to reserve:			
Society fees	\$	868,500	
Loan proceeds		32,500	
Interest and other income		<u>3,320</u>	904,320
Fund expenditures:			
Capital improvements and repairs		656,724	
Loan payments		33,423	
Transfers to operating fund		<u>33,744</u>	<u>(723,891)</u>
Fund balance - end of year		\$	<u><u>880,217</u></u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2015 and 2014

Schedule 1 - Other Operating Revenues	2015	2014
Late fees	\$ 21,393	\$ 25,526
Other	54,321	27,015
	\$ 75,714	\$ 52,541

Schedule 2 - Lake Lodge Expenses		
Mortgage interest	\$ 26,873	\$ 43,181
Repairs and maintenance	15,450	16,358
Furnishings and equipment	-	950
Electricity	9,598	10,435
Water and sewer	1,287	1,352
Communication	2,355	1,436
Oil and propane	13,353	16,825
	\$ 68,916	\$ 90,537

Schedule 3 - Fitness Center Expenses		
Personal services	\$ 95,835	\$ 97,101
Electricity	10,148	11,675
Oil and propane	15,598	23,085
Water and sewer	2,572	2,990
Communication	811	2,118
Real estate taxes	447	437
Repairs and maintenance	51,039	25,259
Furnishings and equipment	2,831	447
	\$ 179,281	\$ 163,112

Schedule 4 - Activities Building Expenses		
Electricity	\$ 9,830	\$ 33,573
Oil and propane	18,718	22,985
Water and sewer	2,584	2,321
Communication	12,861	9,940
Repairs and maintenance	32,748	30,689
Furnishings and equipment	23,859	-
	\$ 100,600	\$ 99,508

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2015 and 2014

Schedule 5- Tennis and Platform Expenses	2015	2014
Electricity	\$ 786	\$ 1,068
Oil and propane	1,799	4,753
Repairs and maintenance	12,164	5,496
	\$ 14,749	\$ 11,317

Schedule 6 - Pool Expenses		
Contract labor	\$ 145,660	\$ 131,152
Contracted services	42,906	34,682
Supplies	21,793	17,655
Repairs and maintenance	60,222	39,891
Furnishings and equipment	19,960	9,907
Water and sewer	7,427	11,580
Communication	3,777	1,616
Electricity	10,331	8,288
Oil and propane	20,904	26,437
	\$ 332,980	\$ 281,208

Schedule 7 - Transportation Expenses		
Contracted services	\$ 317,631	\$ 314,403
Fuel	5,707	10,818
Repairs and maintenance	5,060	6,595
	\$ 328,398	\$ 331,816

Schedule 8 - Roads and Grounds Expenses		
Personal services	\$ 374,855	\$ 378,184
Winter/summer program	612,523	378,044
Road maintenance and paving	7,429	52,108
Street light maintenance	49,230	71,253
Street light electricity	52,270	68,938
Landscape maintenance	54,862	49,960
Storm water maintenance	-	7,662
	\$ 1,151,169	\$ 1,006,149

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
for the years ended December 31, 2015 and 2014

Schedule 9- General and Administrative Expenses	<u>2015</u>	<u>2014</u>
Personal services	\$ 145,819	\$ 137,533
Security	795,033	763,991
Management fees	260,141	259,958
Professional fees	48,987	72,967
Insurance	90,962	113,299
Payroll taxes and employee benefits	128,306	144,370
Office supplies and expenses	43,570	66,315
Materials and supplies	29,737	24,881
Community activities	15,257	18,654
Refuse removal	4,809	4,113
Permits and fees	5,428	6,664
	<u>\$ 1,568,049</u>	<u>\$ 1,612,745</u>

See auditor's report.