

VAIL'S GROVE COOPERATIVE, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

(with Independent Auditors' Report thereon)

PETER R. ROSSI, JR., CPA
CERTIFIED PUBLIC ACCOUNTANT

VAIL'S GROVE COOPERATIVE, INC.
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
TABLE OF CONTENTS

| | |
|---|------|
| Independent Auditor's Report | 1-2 |
| Financial Statements: | |
| Balance Sheet | 3 |
| Statement of Operations | 4 |
| Supplement to the Statement of Operations - Schedules A-D | 5 |
| Statement of Shareholders' Equity | 6 |
| Statement of Cash Flows | 7 |
| Notes to Financial Statements | 8-12 |
| Supplementary Information on Future Major Repairs and Replacements | 13 |

PETER R. ROSSI, JR., CPA
CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

To the Shareholders and Board of Directors
Vail's Grove Cooperative, Inc.
5 Vail Boulevard-Peach Lake
Brewster, NY 10509

I have audited the accompanying financial statements of Vail's Grove Cooperative, Inc. a New York Corporation, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of operations and supporting schedules, shareholders 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

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

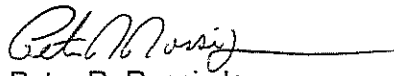
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vail's Grove Cooperative, Inc. 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.

The supplementary information on future major repairs and replacements on Page 13 is not a required part of the basic financial statements but is supplementary information required by the American Institute of Certified Public Accountants. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion it.



Peter R. Rossi, Jr.
Certified Public Accountant

Date of Report: January 25, 2017

VAIL'S GROVE COOPERATIVE INC.
BALANCE SHEET
December 31,

ASSETS

| | 2016 | 2015 |
|---|---------------------|---------------------|
| Cash and Cash Equivalents | \$ 325,757 | \$ 337,555 |
| Maintenance Charges Receivable | 12,007 | 16,572 |
| Mortgage Note Receivable and Prepaid Expenses | 34,373 | 40,200 |
| Property and Equipment (Net) | 1,277,693 | 1,355,640 |
| TOTAL ASSETS | \$ 1,649,830 | \$ 1,749,967 |

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES:

| | | |
|--|----------------|----------------|
| Accounts Payable | \$ 6,266 | \$ 9,390 |
| Auto Loan Payable | 26,665 | 29,697 |
| Mortgage Loan Payable-Short-term portion | 33,426 | 31,464 |
| Mortgage Loan Payable-Long-term portion | 155,424 | 188,850 |
| TOTAL LIABILITIES | 221,781 | 259,401 |

SHAREHOLDERS' EQUITY:

| | | |
|---|---------------------|---------------------|
| Capital Stock, \$.10 par value | | |
| Authorized - 200,000 shares | | |
| Outstanding - 23,440 shares | 2,345 | 2,345 |
| Additional Paid-In Capital | 1,263,503 | 1,263,503 |
| Retained Earnings | 162,201 | 224,718 |
| TOTAL SHAREHOLDERS' EQUITY | 1,428,049 | 1,490,566 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,649,830 | \$ 1,749,967 |

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF OPERATIONS
December 31,

| | 2016 | 2015 |
|--|-------------|-------------|
| <u>REVENUES:</u> | | |
| Maintenance Charges | \$ 456,268 | \$ 456,268 |
| Interest Income | 3,081 | 3,491 |
| Rental Income - Shareholders Rentals | 38,242 | 35,431 |
| Rental Income - Pavilion Rentals | 8,425 | 4,475 |
| Late Charges and Other Fees | 321 | 4,208 |
| Application and Transfer Fees | 6,443 | 7,111 |
| Other Income | 650 | 5,179 |
| TOTAL REVENUES | 513,430 | 516,163 |
| <u>EXPENSES:</u> | | |
| FIXED COSTS AND OTHER CHARGES | | |
| Supplemental Schedule A | 135,808 | 111,316 |
| OPERATING EXPENSES | | |
| Supplemental Schedule B | 207,018 | 214,657 |
| REPAIRS AND MAINTENANCE | | |
| Supplemental Schedule C | 103,727 | 90,860 |
| GENERAL AND ADMINISTRATIVE | | |
| Supplemental Schedule D | 37,968 | 39,857 |
| TOTAL EXPENSES | 484,521 | 456,690 |
| EXCESS OF REVENUES OVER EXPENSES BEFORE DEPRECIATION | 28,909 | 59,473 |
| DEPRECIATION | (91,426) | (87,451) |
| EXCESS(DEFICIENCY) OF REVENUES OVER EXPENSES | \$ (62,517) | \$ (27,978) |

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF OPERATIONS
December 31,

| | <u>2016</u> | <u>2015</u> |
|---|--------------------------|--------------------------|
| <u>FIXED COSTS AND OTHER CHARGES-SCHEDULE A</u> | | |
| Real Estate Taxes | \$ 80,309 | \$ 60,105 |
| Insurance | 55,499 | 51,211 |
| TOTAL FIXED COSTS AND OTHER CHARGES | <u><u>\$ 135,808</u></u> | <u><u>\$ 111,316</u></u> |
| <u>OPERATING EXPENSES - SCHEDULE B</u> | | |
| Salaries and Payroll Taxes | \$ 141,620 | \$ 137,486 |
| Utilities | 27,394 | 34,262 |
| Pavilion Use Expense | 2,815 | 8,127 |
| Environmental/Lake Treatment | 6,938 | 8,856 |
| Beach and Recreation | 8,897 | 13,865 |
| Refuse Removal | 19,354 | 12,061 |
| TOTAL OPERATING EXPENSES | <u><u>\$ 207,018</u></u> | <u><u>\$ 214,657</u></u> |
| <u>REPAIRS AND MAINTENANCE - SCHEDULE C</u> | | |
| General and Maintenance Costs | \$ 40,102 | \$ 38,638 |
| Snow Removal | 44,475 | 20,400 |
| Truck Maintenance Costs | 2,577 | 7,409 |
| Water Leaks | 16,573 | 24,413 |
| TOTAL REPAIRS AND MAINTENANCE | <u><u>\$ 103,727</u></u> | <u><u>\$ 90,860</u></u> |
| <u>GENERAL AND ADMINISTRATIVE EXPENSES - SCH. D</u> | | |
| Postage, Printing and Office Supplies | \$ 14,158 | \$ 13,351 |
| Professional Services | 6,886 | 7,370 |
| Income and Franchise Tax | 640 | 628 |
| Loan Interest | 13,381 | 15,030 |
| Miscellaneous | 2,903 | 3,478 |
| TOTAL GENERAL AND ADMINISTRATIVE EXPENSES | <u><u>\$ 37,968</u></u> | <u><u>\$ 39,857</u></u> |

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
STATEMENT OF SHAREHOLDERS' EQUITY
December 31, 2016 AND 2015

| | TOTAL | CAPITAL STOCK | ADDITIONAL PAID IN CAPITAL | UNAPPROP. RETAINED EARNINGS | DESIGNATED FOR FUTURE CAPITAL IMPROVEMENTS |
|---|---------------------|-----------------|----------------------------|-----------------------------|--|
| Shareholders Equity | | | | | |
| January 1, 2016 | \$ 1,490,566 | \$ 2,345 | \$ 1,263,503 | \$ 154,805 | \$ 69,913 |
| Excess of Expenses over Revenues | (62,517) | | | (62,517) | |
| Amounts allocated to Future Capital Improvements and Prior Period Adj | | | | (4) | 4 |
| Shareholders Equity | | | | | |
| December 31, 2016 | <u>\$ 1,428,049</u> | <u>\$ 2,345</u> | <u>\$ 1,263,503</u> | <u>\$ 92,284</u> | <u>\$ 69,917</u> |
| Shareholders Equity | | | | | |
| January 1, 2015 | \$ 1,518,544 | \$ 2,345 | \$ 1,263,503 | \$ 182,811 | \$ 69,885 |
| Excess of Expenses over Revenue | (27,978) | | | (27,978) | |
| Amounts allocated to Future Capital Improvements and Prior Period Adj | | | | (28) | 28 |
| Shareholders Equity | | | | | |
| December 31, 2015 | <u>\$ 1,490,566</u> | <u>\$ 2,345</u> | <u>\$ 1,263,503</u> | <u>\$ 154,805</u> | <u>\$ 69,913</u> |

The accompanying footnotes are an integral part of the financial statements

**VAIL'S GROVE COOPERATIVE
STATEMENT OF CASH FLOWS
For the Years Ended December 31,**

| | 2016 | 2015 |
|---|-------------------|-------------------|
| <u>OPERATING ACTIVITIES:</u> | | |
| Excess(Deficiency) of Revenues over Expenses | \$ (62,517) | \$ (27,978) |
| Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by operating activities: | | |
| Depreciation | 91,426 | 87,451 |
| Decrease (increase) in assets: | | |
| Maintenance Charges Receivable | 4,565 | (3,821) |
| Special Assessment Receivable | - | - |
| Prepaid Expenses | 5,827 | 5,418 |
| Increase (decrease) in liabilities: | | |
| Accounts Payable | (3,124) | (8,427) |
| Other Liabilities | - | - |
| NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES | 36,177 | 52,643 |
| <u>INVESTING ACTIVITIES:</u> | | |
| Acquisition of Property and Equipment- Net | (13,479) | (69,503) |
| Retained Earnings Adjustments | - | - |
| NET CASH PROVIDED (USED IN) BY INVESTING ACTIVITIES | (13,479) | (69,503) |
| <u>FINANCING ACTIVITIES:</u> | | |
| Auto Loan Payable | (3,032) | 29,697 |
| Mortgage Loan Payable - water tanks | (31,464) | (29,686) |
| CASH FLOWS FROM FINANCING ACTIVITIES | (34,496) | 11 |
| INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS | (11,798) | (16,849) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 337,555 | 354,404 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 325,757 | \$ 337,555 |

The accompanying footnotes are an integral part of the financial statements

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Vail's Grove Cooperative, Inc.(The Corporation) is presented to assist in the understanding of the Corporation's financial statements. The financial statements and the notes are representations of the Corporation's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization

Vail's Grove Cooperative, Inc. was incorporated in the State of New York on November 30, 1972 and is organized as a "Cooperative Housing Corporation" as defined in Section 216(b)(1) of the Internal Revenue Code. It consists of common areas and 173 parcels leased to its 173 shareholders. The primary purpose of the Corporation is to manage the operations of Vail's Grove Cooperative, Inc. and maintain the common elements.

Basis of Accounting

The financial statements of the Corporation have been prepared on the accrual basis.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from these estimates.

Property and Equipment

Expenditures for major improvements and betterments that extend the useful life of the property are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation of fixed assets is recorded using straight-line and accelerated methods for financial statement purposes. Estimated useful lives in calculating depreciation are as follows:

| | |
|-------------------------|-------------------|
| Buildings | 32 - 40 years |
| Land Improvement | 10 - 40 years |
| Furniture and Equipment | 3 - 7 years |
| Building Improvements | 10 - 27 1/2 years |

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Taxes

The Corporation is subject to Federal Income Taxation and New York State Franchise Taxes. Net operating losses, if any, may be carried forward for a period of 20 years.

The Internal Revenue Service and New York State have taken the position that real estate cooperatives are subject to Section 277 of the Internal Revenue Code. Section 277 subjects to Federal and State Taxation, net income derived from non-membership sources. Recent tax court decisions have left uncertainty as to the applicability of Section 277 and the taxability of interest earned on reserve funds. Therefore, beginning in 1998 the Corporation has taken the position that no provision for income taxes is required pursuant to Section 277 for investment income on reserve funds.

Cash Equivalents

For the purpose of the statement of cash flows, the Corporation considers money market funds to be cash equivalents.

Maintenance Charges

Tenant shareholders are subject to quarterly maintenance charges to provide funds for the Corporation's operating expenses, future capital acquisitions, and major repairs and replacements. Maintenance charges receivable at the balance sheet date represent fees due from tenant shareholders. No Provision has been made in the financial statements for any non-payment of these charges. The Corporation's policy is to retain legal counsel and place liens on the shares of stock of tenant shareholders whose maintenance charges are ninety days or more delinquent. Any excess maintenance charges at year end are retained by the Corporation for its use in future years.

Real Estate Taxes

Tenant shareholders are responsible for paying real estate taxes related to their units. The Corporation is responsible for real estate taxes on the common property.

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

NOTE 2 - PROPERTY AND EQUIPMENT

Major classifications of property and equipment are summarized as follows as of December 31:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|---------------------|---------------------|
| Land | \$ 485,027 | \$ 485,027 |
| Land Improvements | 1,759,802 | 1,746,323 |
| Equipment | 273,629 | 273,629 |
| Building Improvements | 409,540 | 409,540 |
| | <u>2,927,998</u> | <u>2,914,519</u> |
| Less: Accumulated Depreciation | <u>(1,650,305)</u> | <u>(1,558,879)</u> |
| | <u>\$ 1,277,693</u> | <u>\$ 1,355,640</u> |

Depreciation expense for the year ended December 31, 2016 and December 31, 2015 was \$91,426 and \$87,451 respectively.

NOTE 3 - LOAN MORTGAGE RECEIVABLE

The Corporation sold the premises located on 2 Orchard Road in July 2001 for \$100,420. Terms of the sale included a down payment in the amount of \$20,520 and the balance payable pursuant to the terms of a promissory note in the principal amount of \$79,900 over a term of 20 years. The interest rate on the mortgage receivable is fixed at 8% per annum. The gain on the sale of the property was \$78,436.

NOTE 4 - CASH AND CASH EQUIVALENTS

Cash consisted of the following as of December 31,

| | <u>2016</u> | <u>2015</u> |
|-----------------------|-------------------|-------------------|
| Demand Deposit | \$ 100,858 | \$ 112,815 |
| Passbook Savings | 154,982 | 154,827 |
| Money Market Reserves | 69,917 | 69,913 |
| | <u>\$ 325,757</u> | <u>\$ 337,555</u> |

NOTE 5 - INSURED CASH

The Corporation has deposits in various commercial banks. At December 31, 2016 these deposits were fully insured by the FDIC.

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

NOTE 6 - AUTO LOAN PAYABLE

In March 2016, the Corporation obtained a \$31,500 installment loan from M&T Bank to finance the purchase of 2015 Ford F350. The loan is payable at a fixed interest rate of 3.87% for a term of 5 years with monthly payments of \$579 and matures on 5/26/2020. During 2016, interest accrued on the loan amounted to \$1,084.

NOTE 7 - MORTGAGE LOAN PAYABLE

In June 2014, the Corporation obtained a \$250,000 multiple disbursement mortgage loan from M&T Bank to finance the purchase and installation of Water Tanks. During the disbursement period the Corporation received advances and made interest only payments at the prime rate until the amortization commencement date of January 30, 2015. Upon commencement, the mortgage of \$250,000 is payable at a fixed interest rate of 5.87% for a term of seven years with monthly payments of \$3,647 and matures on December 30, 2021. During 2016, interest accrued on the loan amounted to \$12,297.

NOTE 8 - INTEREST INCOME

The Corporation receives interest from savings, reserve funds and the mortgage receivable.

NOTE 9 - RENTAL INCOME

The Corporation rents garage space to shareholders. It also receives ten percent of the rent received by shareholders who have sublet their houses, and rental fees from shareholders and non-shareholders for use of the Pavilion.

NOTE 10 - RELATED PARTY TRANSACTIONS

A number of shareholders are paid directly or indirectly by the Corporation for services rendered. The Corporation also utilizes the service of outside agencies, which employ family members of shareholders and members of the Board of Directors.

NOTE 11 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Corporation accumulates funds for future major repairs and replacements. Accumulated funds, which aggregates \$69,917 at December 31, 2016, are held in separate accounts and are generally not available for operating purposes. It is the Corporation's policy to allocate interest earned on such funds to the replacement fund. Amounts in the replacement fund or future major repairs and replacements are being accumulated based on estimated current replacement costs. Actual costs may vary from those estimates and the variations may be material. Amounts

VAIL'S GROVE COOPERATIVE, INC.
NOTES TO FINANCIAL STATEMENTS, CONTINUED
December 31, 2016

NOTE 11 - FUTURE MAJOR REPAIRS AND REPLACEMENTS -CONTINUED

so accumulated may not be adequate to meet future needs. If additional funds are needed, however, the Corporation has the right, subject to Board of Directors approval, to increase regular monthly maintenance charges, to levy special assessments, or it may delay major repairs and replacements until funds are available.

VAIL'S GROVE COOPERATIVE, INC.
SUPPLEMENTARY INFORMATION
FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2016

The Corporation's Board of Directors, with their long range planning committee, estimated the remaining useful lives and the replacement costs of the components of certain common property to be as follows:

| Components | Estimated Remaining Useful Life | Estimated Current Replacement Cost |
|---------------|---------------------------------------|--|
| Pump House | 1-3 | 300,000 |
| Water Lines | 15 | 90,000 |
| Rental Garage | 15 | 70,000 |
| Garage | 10 | 12,000 |
| Pavilion | 10 | 10,000 |
| Tennis Court | 15 | 10,000 |
| Truck | 5-7 | <u>60,000</u> |
| Totals | | 552,000 |

THE INFORMATION CONTAINED IN THIS SUPPLEMENTARY INFORMATION IS NOT FOR PUBLIC DISCLOSURE AND IS INTENDED SOLELY FOR THE USE OF THE UNIT OWNERS OF THIS CORPORATION.