

HERITAGE HILLS SOCIETY, LTD.

FINANCIAL STATEMENTS

Years Ended December 31, 2023 and 2022

HERITAGE HILLS SOCIETY, LTD.
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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of Heritage Hills Society, Ltd., which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of revenues, expenses, and changes in homeowners' equity and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Heritage Hills Society, Ltd. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Hills Society, Ltd.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Heritage Hills Society, Ltd.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heritage Hills Society, Ltd.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Omission of Required Supplementary Information about Future Major Repairs and Replacements

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.

GRADY CPA PC

Rhinebeck, New York
April 8, 2024

HERITAGE HILLS SOCIETY, LTD.
BALANCE SHEETS
December 31, 2023 and 2022

ASSETS

	2023	2022
Current assets:		
Cash - undesignated	\$ 70,807	\$ (13,621)
Cash - designated for future major repairs and replacements	757,951	768,139
Assessments receivable, less allowance for uncollectible assessments of \$2,000	32,341	62,162
Prepaid expenses	44,012	41,571
Total current assets	905,111	858,251
Other assets:		
Property and equipment, net of accumulated depreciation	9,058,216	8,893,371
Intangible assets, net of accumulated amortization	298	369
Total other assets	9,058,514	8,893,740
Total assets	\$ 9,963,625	\$ 9,751,991

LIABILITIES AND HOMEOWNERS' EQUITY

Current liabilities:		
Accounts payable and accrued expenses	\$ 36,393	\$ 79,276
Current portion of loan payable	76,377	73,202
Current portion of note payable	140,553	135,660
Contract liabilities (assessments received in advance - replacement fund)	757,950	768,139
Prepaid society fees	93,230	36,606
Total current liabilities	1,104,503	1,092,883
Long-term liabilities:		
Loan payable	349,225	425,508
Note payable	492,887	633,330
Security deposits	8,000	7,600
Total long-term liabilities	850,112	1,066,438
Total liabilities	1,954,615	2,159,321
Homeowners' equity:	8,009,010	7,592,670
Total liabilities and homeowners' equity	\$ 9,963,625	\$ 9,751,991

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended December 31, 2023 and 2022

	2023	2022
Revenues:		
Common charges	\$ 5,696,712	\$ 5,679,248
Interest income	22,989	3,659
Other operating revenues	466,104	137,736
Total revenues	6,185,805	5,820,643
Expenses:		
Lake lodge	54,502	53,306
Fitness center	171,817	175,852
Activities building	98,074	105,696
Tennis and platform	27,913	45,271
Pools	385,681	388,320
Transportation	116,870	120,664
Roads and grounds	1,218,389	1,141,625
Maintenance yard	265,591	222,482
General administrative	1,274,821	1,257,650
Meadowlark park	104,463	172,071
Employee benefits	212,058	208,537
Insurance	160,486	109,357
Security	1,206,591	963,430
Total expenses	5,297,257	4,964,261
Excess (deficiency) of revenues over expenses before depreciation, amortization and income taxes	888,548	856,382
Amortization	71	71
Depreciation	472,137	454,134
Excess (deficiency) of revenues over expenses before income taxes	416,340	402,177
Income taxes (credits)	-	(2,354)
Excess (deficiency) of revenues over expenses	\$ 416,340	\$ 404,531

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF CHANGES IN HOMEOWNERS' EQUITY
For the Years Ended December 31, 2023 and 2022

	Designated for Future Major Repairs and Replacements	Undesignated	Total
Balance at December 31, 2021	\$ -	\$ 7,188,139	\$ 7,188,139
Excess (deficiency) of revenues over expenses	<u>-</u>	<u>404,531</u>	<u>404,531</u>
Balance at December 31, 2022	-	7,592,670	7,592,670
Excess (deficiency) of revenues over expenses	<u>-</u>	<u>416,340</u>	<u>416,340</u>
Balance at December 31, 2023	<u>\$ -</u>	<u>\$ 8,009,010</u>	<u>\$ 8,009,010</u>

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

HERITAGE HILLS SOCIETY, LTD.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Excess (deficiency) of revenues over expenses	\$ 416,340	\$ 404,531
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided (used) by operating activities:		
Depreciation	472,137	454,134
Amortization	71	71
Assessments receivable - net	29,821	(50,210)
Prepaid expenses	(2,441)	(19,952)
Accounts payable and accrued expenses	(42,883)	(115,035)
Contract liabilities (assessments received in advance - replacement fund)	(10,189)	(110,755)
Prepaid society fees	56,623	(37,786)
Total adjustments	503,139	120,467
Net cash provided (used) by operating activities	919,480	524,998
Cash flows from investing activities:		
Fixed asset additions	(636,982)	(494,254)
Net cash provided (used) by investing activities	(636,982)	(494,254)
Cash flows from financing activities:		
Security deposits	400	700
Payments of long-term debt	(208,658)	(200,961)
Net cash provided (used) by financing activities	(208,258)	(200,261)
Net increase (decrease) in cash and cash equivalents	74,240	(169,517)
Cash and cash equivalents - beginning of year	754,518	924,035
Cash and cash equivalents - end of year	\$ 828,758	\$ 754,518
Supplementary Information to the Statement of Cash Flows:		
Cash paid for, interest	\$ 20,187	\$ 23,265
Cash paid for, taxes (credit)	\$ -	\$ (2,354)

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

HERITAGE HILLS SOCIETY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

1. Nature of Organization:

Heritage Hills Society, Ltd. is located in Somers, New York. Heritage Hills Society, Ltd. ("the Association") owns, operates, and maintains the real estate at the maintenance yard, park and 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 April 8, 2024, 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.

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, 2023 and 2022.

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 major categorizations:

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 1,166,584	\$ 786,336
Maintenance yard	1,007,062	1,007,062
Park	1,268,982	1,268,982
Fitness center	2,262,122	2,155,288
Activities center	2,263,080	2,147,080
Recreational satellite	5,731,051	5,731,051
Equipment and furnishings	841,554	841,554
Lake lodge	1,077,484	1,053,584
Vehicles	<u>515,670</u>	<u>505,670</u>
	16,133,589	15,496,607
Less accumulated depreciation	<u>7,075,373</u>	<u>6,603,236</u>
	<u>\$ 9,058,216</u>	<u>\$ 8,893,371</u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued):

Intangible assets:

Intangible assets are stated at cost. Amortization is calculated using the straight-line method.

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, considering recent operating performance and pricing trends. As a result of its review, the Association does not believe any material impairment currently exists related to its long-lived assets.

Contract liabilities (assessments received in advance - replacement fund):

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance – replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to reserve assessments. During the current period, the Association assessed and received \$932,447 for the replacement fund. The balances of contract liabilities (assessments received in advance – replacement fund) as of the beginning and end of the year are \$768,139 and \$757,950, respectively.

Income taxes:

The Association filed its income tax return as a homeowners' association in accordance with the Internal Revenue Code Section 528 for the years ended December 31, 2023 and 2022. Under that Section, the Association is not taxed on uniform assessments to members and other income received from Association members solely as a function of their membership in the Association. The Association is taxed at the rate of 30% on its nonexempt function income, which includes interest income and revenue received from nonmembers.

A homeowners' association with no federal taxable income is no longer subject to the fixed dollar minimum tax or the metropolitan transportation business tax (MTA surcharge) computed on the fixed dollar minimum. Homeowners' associations with no federal taxable income may still owe tax on other bases and the MTA surcharge computed on those bases.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's management believes it is no longer subject to income tax examinations for years ending prior to December 31, 2020.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

3. Summary of Significant Accounting Policies (continued):

Member assessments:

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to issue a first, then a second, written warning regarding delinquent accounts. If the warnings are not responded to with payment, legal counsel will be retained, and liens will be placed on the properties of homeowners whose assessments are ninety days or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year. At December 31, 2023 and 2022, the Association had delinquent assessments of \$34,341 and \$115,200, respectively, and an allowance for doubtful accounts of \$2,000 and \$53,038, respectively.

The Association treats uncollectible assessments as variable consideration. Methods, inputs, and assumptions used to evaluate whether an estimate of variable consideration is constrained include consideration of past experience and susceptibility to factors outside the Association's control. The balances of assessments receivable as of the beginning and end of the year are \$115,200 and \$34,341, respectively.

4. Future Major Repairs and Replacements:

The Association's governing documents do not require funds to be accumulated for future major repairs and replacements. A reserve for major repairs and replacements was established by the Board of Directors of Heritage Hills Society, Ltd. for future major repairs and replacements of the common elements. The Association's Board of Directors has accumulated reserve amounts which aggregate \$757,951 and \$768,139 as of December 31, 2023 and 2022, respectively, and invested these amounts in separate interest bearing accounts. These funds are available for any purpose deemed necessary by the board.

The Association has informally studied the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. Actual expenditures and investment income may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the reserve fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right to increase regular assessments, levy special assessments, or 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.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

5. Activity Clubs:

The Association sponsors a variety of community activity clubs. The Association has issued 1099's to individuals or companies making \$600 or more for these goods or services.

6. Concentration 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. Loss Contingency:

In the normal course of business, the Association is either the plaintiff or defendant in various litigation matters. As of the date of these financial statements there are no matters pending.

8. Loan Payable:

In December 2018, the Association borrowed a \$750,000 loan from PCSB Bank to fund the purchase of the maintenance yard property. The term of the loan is 10 years, with an original interest rate of 5.26% and monthly payment of principal and interest of \$8,076.63. In December 2020, the loan was modified to lower both the interest rate and monthly payments. As of December 2023, the interest rate is 4.26% with monthly payments of principal and interest of \$7,774.62.

Future minimum repayment approximate as follows:

2024	\$ 76,377
2025	79,292
2026	83,308
2027	86,978
2028	90,800
Thereafter	<u>8,847</u>
	<u>\$425,602</u>

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
NOTES TO THE FINANCIAL STATEMENTS

9. Note Payable:

In February 2021, the Association executed a promissory note of \$995,000 to finance the purchase of the East Hill 9 Hole Golf Course. The term of the note is 7 years with a maturity date of March 1, 2028. The interest rate is 3.50% and the monthly payment of principal and interest is \$13,396.04.

Future minimum repayment approximate as follows:

2024	\$140,553
2025	145,623
2026	150,875
2027	156,317
2028	<u>40,072</u>
	<u>\$ 633,440</u>

10. Interested Directors:

The New York State Not For Profit Corporation Law Section 519-a requires that the Board of Directors disclose to its members any contracts involving interested directors. Interested directors are those affiliated with or who have a substantial financial interest in a company who is a party to a contract with the Association. The Board represents that no actions taken during the years ended December 31, 2023 and 2022 were subject to the annual reporting requirements.

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
For the Years Ended December 31, 2023 and 2022

	2023	2022
Schedule 1 - Other Operating Revenues		
Late fees	\$ 3,431	\$ 11,093
Legal fee reimbursement	3,655	14,375
Maintenance yard income	93,850	90,950
Recovery of bad debt	30,267	-
Employee retention credit	100,843	-
Sale contributions	96,000	-
Cost reimbursement	125,758	-
Other	12,300	21,318
	\$ 466,104	\$ 137,736
 Schedule 2 - Lake Lodge Expenses		
Repairs and maintenance	\$ 22,929	\$ 14,602
Furnishings and equipment	2,254	-
Electricity	9,202	13,192
Water and sewer	1,385	1,317
Communications	4,331	5,742
Oil and propane	14,401	18,453
	\$ 54,502	\$ 53,306
 Schedule 3 - Fitness Center Expenses		
Personnel service	\$ 99,625	\$ 93,944
Electricity	12,099	17,021
Oil and propane	11,966	16,608
Water and sewer	8,834	7,624
Communications	2,292	2,849
Repairs, maintenance, and equipment	37,002	37,806
	\$ 171,817	\$ 175,852
 Schedule 4 - Activities Building Expenses		
Electricity	\$ 13,874	\$ 20,010
Oil and propane	22,856	38,351
Water and sewer	7,669	5,812
Communications	18,548	21,130
Woodshop	3,648	-
Furnishings and equipment	2,905	65
Repairs and maintenance	28,574	20,328
	\$ 98,074	\$ 105,696

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
For the Years Ended December 31, 2023 and 2022

	2023	2022
Schedule 5 - Tennis and Platform Expenses		
Electricity	\$ 504	\$ 720
Oil and propane	1,294	1,695
Repairs and maintenance	26,115	42,856
	\$ 27,913	\$ 45,271
Schedule 6 - Pools Expenses		
Contract labor - lifeguards	\$ 172,675	\$ 180,831
Contracted services	49,847	24,924
Supplies	18,847	14,189
Repairs and maintenance	86,816	79,125
Furnishings and equipment	8,550	32,071
Water and sewer	11,709	19,413
Communications	2,341	1,860
Electricity	14,853	9,123
Oil and propane	20,043	26,784
	\$ 385,681	\$ 388,320
Schedule 7 - Transportation Expenses		
Personnel - bus drivers	\$ 91,864	\$ 99,067
Fuel	16,601	15,832
Repairs and maintenance	8,405	5,765
	\$ 116,870	\$ 120,664
Schedule 8 - Roads and Grounds Expenses		
Winter/summer programs	\$ 1,033,497	\$ 982,098
Road maintenance and paving	52,730	31,643
Street light maintenance	26,136	34,920
Street light electricity	33,201	41,484
Vehicle repairs and fuel	14,356	12,642
Landscape maintenance	58,469	38,838
	\$ 1,218,389	\$ 1,141,625

See auditor's report.

HERITAGE HILLS SOCIETY, LTD.
SUPPORTING SCHEDULES
For the Years Ended December 31, 2023 and 2022

	2023	2022
Schedule 9 - Maintenance Yard		
Mortgage interest	\$ 20,187	\$ 23,265
Contract labor	86,313	86,255
Electricity	6,045	7,141
Oil and propane	3,075	11,175
Water and sewer	1,834	1,820
Communications	3,592	3,489
Repairs and maintenance	27,059	31,577
Gas and diesel fuel	117,486	57,760
	\$ 265,591	\$ 222,482
 Schedule 10 - General and Administrative Expenses		
Personnel services	\$ 620,636	\$ 587,606
Management fees	373,110	349,907
Professional fees	58,612	55,436
Office supplies and expenses	13,118	12,956
Materials and supplies	83,444	63,161
Community activities	58,339	61,524
Real estate taxes	554	562
Refuse removal	5,859	4,556
Permits and fees	7,412	6,155
Contingency	12,900	115,787
AV tech and equipment	25,272	-
Continuing education	2,500	-
Miscellaneous	13,066	-
	\$ 1,274,821	\$ 1,257,650
 Schedule 11 - Meadowlark Park		
Electricity	\$ 11,709	\$ 8,175
Water and sewer	2,000	1,765
Repairs and maintenance	14,848	25,438
Landscape maintenance	50,685	106,871
Interest	25,203	29,822
Real estate taxes	18	-
	\$ 104,463	\$ 172,071

See auditor's report.