

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
MAY 31, 2022 AND 2021**

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Homeowners
The Drumlins Homeowners Association, Inc.
Victor, New York

Opinion

We have audited the accompanying financial statements of The Drumlins Homeowners Association, Inc. which comprise the balance sheets as of May 31, 2022 and 2021, and the related statement of revenues, expenses, and changes in fund balance 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 The Drumlins Homeowners Association, Inc. as of May 31, 2022 and 2021, 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 audits 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 The Drumlins Homeowners Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 the 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 The Drumlins Homeowners Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' 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 omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 The Drumlins Homeowners Association, Inc.'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 The Drumlins Homeowners Association, Inc.'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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that supplementary information on future major repairs and replacements on page 9 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Bruce, Disquardis & Roy, LLP

Rochester, New York
August 1, 2022

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

**FINANCIAL STATEMENTS
MAY 31, 2022 AND 2021**

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

MAY 31, 2022 AND 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 467,026	\$ 398,709
Accounts receivable from homeowners	2,600	565
Accrued interest receivable	249	0
Prepaid expenses	<u>3,503</u>	<u>3,503</u>
Total assets	<u>\$ 473,378</u>	<u>\$ 402,777</u>

LIABILITIES AND FUND BALANCES

	<u>2022</u>	<u>2021</u>
Liabilities		
Accounts payable	\$ 15,512	\$ 3,205
Advance payments from homeowners	1,708	1,353
Contract liabilities - major maintenance fund	318,935	238,072
Accrued income taxes	<u>1,455</u>	<u>748</u>
Total liabilities	<u>337,610</u>	<u>243,378</u>
Fund balances		
Operating	135,768	159,399
Major maintenance	<u>0</u>	<u>0</u>
Total fund balances	<u>135,768</u>	<u>159,399</u>
	<u>\$ 473,378</u>	<u>\$ 402,777</u>

See accompanying notes and independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

FOR THE YEARS ENDED MAY 31, 2022 AND 2021

	2022		2021	
	Operating Fund	Major Maintenance Fund	Operating Fund	Major Maintenance Fund
	Total		Total	
Revenues				
Assessments	\$ 110,719	\$ 22,918	\$ 133,637	\$ 34,305
Interest	0	5,592	5,592	3,929
Other	0	0	0	205
Total revenues	<u>110,719</u>	<u>28,510</u>	<u>139,229</u>	<u>38,234</u>
Expenses				
Landscaping	54,442	2,770	57,212	10,059
Snow removal	10,216	0	10,216	0
Building and grounds repairs and maintenance	25,667	25,740	51,407	28,175
Electricity	660	0	660	639
Administrative expenses	2,204	0	2,204	0
Management fees	16,791	0	16,791	0
Legal and professional fees	1,700	0	1,700	0
Insurance	20,360	0	20,360	0
Property taxes	855	0	855	800
Income taxes	1,455	0	1,455	748
Total expenses	<u>134,350</u>	<u>28,510</u>	<u>162,860</u>	<u>38,234</u>
Excess of revenues over (under) expenses	(23,631)	0	(23,631)	3,332
Transfers	0	0	0	0
Fund balances - beginning of year	<u>159,399</u>	<u>0</u>	<u>159,399</u>	<u>0</u>
Fund balances - end of year	<u>\$ 135,768</u>	<u>\$ 0</u>	<u>\$ 135,768</u>	<u>\$ 159,399</u>

See accompanying notes and independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Excess of revenues over (under) expenses	\$ (23,631)	\$ 3,332
Adjustments to reconcile excess of revenues over (under) expenses to net cash and cash equivalents provided (used) by operating activities:		
(Increase) decrease in:		
Accounts receivable from homeowners	(2,035)	1,655
Accrued interest receivable	(249)	3,552
Prepaid expenses	0	(1,324)
Increase (decrease) in:		
Accounts payable	12,307	(3,367)
Advance payments from homeowners	355	(880)
Contract liabilities - major maintenance fund	80,863	67,455
Accrued income taxes	707	(329)
	<hr/>	<hr/>
Net cash and cash equivalents provided (used) by operating activities	68,317	70,094
Cash and cash equivalents - beginning of year	<hr/> 398,709	<hr/> 328,615
Cash and cash equivalents - end of year	\$ <u>467,026</u>	\$ <u>398,709</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ <u>748</u>	\$ <u>1,077</u>

See accompanying notes and independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2022 AND 2021

NOTE 1: SUMMARY OF OPERATIONS

On July 10, 1986, the Association was formed under Section 402 of the New York State Not-For-Profit Corporation Law, for the purpose of maintaining the common areas (consisting of exteriors, asphalt, grounds, and lawns) of fifty-five townhomes in Victor, New York. The homeowners elect a board of directors who hire an independent property management firm to manage the Association.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents - The Association considers all highly liquid investments to be cash equivalents.

Fund Accounting - The Association's governing documents provide certain guidelines for governing its financial activities, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operation of the Association.

Major Maintenance Fund - This fund is used to accumulate financial resources for future major repairs and replacements.

Member Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating and major maintenance expenses. Assessment revenue is recognized as the related performance obligations related to its operating and major maintenance assessments are satisfied over time on a daily pro-rata basis using the input method as disclosed in Note 3 to the financial statements.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are significantly in arrears. An allowance for uncollectible accounts is not deemed necessary as of May 31, 2022 and 2021. 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.

See independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2022 AND 2021

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes - Pursuant to the Tax Reform Act of 1976, homeowner associations are permitted to make an annual election to be treated as a regular corporation or a tax-exempt organization. Each year the Association will file its tax returns under the election which is most beneficial to the organization. Under Section 528 of the Internal Revenue Code, taxes are paid on non-exempt function income (principally interest, net of expenses).

The Association's tax returns for the years ending 2019, 2020 and 2021 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reporting period. Actual results could differ from those estimates.

Subsequent Events - In preparing these financial statements, the Association has evaluated events and transactions for potential recognition and disclosure through August 1, 2022, the date the financial statements were available to be issued. Specific events have been identified in Note 10 to these financial statements.

NOTE 3: NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued guidance that created Topic 606, *Revenue Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association adopted the new guidance as of June 1, 2020, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning major maintenance fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of June 1, 2020. Adoption of the new guidance resulted in ~~changes to our accounting policies for assessment revenue and contract liabilities – major maintenance fund.~~

See independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2022 AND 2021

NOTE 4: CONTRACT LIABILITIES - MAJOR MAINTENANCE FUND

Contract liabilities - major maintenance fund, records the deferral of assessments allocated to the major maintenance fund as a result of the adoption of the new revenue recognition policy described in Note 3.

As of May 31, 2022 and 2021, major maintenance assessments are recorded as follows:

	<u>2022</u>	<u>2021</u>
Budgeted assessments	\$ 103,781	\$ 101,760
Assessments deferred	(80,863)	(67,455)
Assessments previously deferred, recognized	<u>0</u>	<u>0</u>
Assessments	<u>\$ 22,918</u>	<u>\$ 34,305</u>

As of May 31, 2022 and 2021, contract liabilities - major maintenance fund, are recorded as follows:

	<u>2022</u>	<u>2021</u>
Beginning contract liabilities	\$ 238,072	\$ 170,617
Assessments deferred (recognized)	<u>80,863</u>	<u>67,455</u>
Ending contract liabilities	<u>\$ 318,935</u>	<u>\$ 238,072</u>

NOTE 5: OWNERS' ASSESSMENTS

Monthly assessments to owners for the years ended May 31, 2022 and 2021 was \$325, of which a portion is allocated to the major maintenance fund. The annual budget and assessments of owners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. As of June 1, 2022, monthly assessments remained the same.

NOTE 6: COMMITMENTS

The Association has entered into an agreement with Crofton Perdue Associates, Inc. for management of its operations. The agreement provides for a monthly fee of \$1,458 for the year ending May 31, 2022. The management fee increases at a rate of 3% for each of the years ending May 31, 2023 and 2024.

See independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2022 AND 2021

NOTE 7: LINE OF CREDIT

The Association has a \$25,000 line of credit with a bank. Interest is at the Wall Street Journal's prime rate plus 2.25%. There was no outstanding balance as of May 31, 2022.

NOTE 8: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association has elected to accumulate funds for future major repairs and replacements. Accumulated funds are accounted for separately and generally are not available for expenditures for normal operations.

The board of directors and the management company determine the amounts to be allocated to the major maintenance fund. Actual expenditures may vary from the estimated future expenditures, and the variations may be material. Therefore, amounts accumulated in the major maintenance 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, pass special assessments, or delay major repairs and replacements until funds are available.

NOTE 9: CONCENTRATIONS OF CREDIT RISK

The Association's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. The Association places its cash investments with high credit quality institutions. At times, such investments may be in excess of the FDIC insurance limit. The Association routinely assesses the financial strength of these organizations, and as a consequence, believes that its credit risk exposure is limited. During the year, the Association had cash in a bank in excess of federally insured limits amounting to \$217,011 and \$150,234 for the years ended May 31, 2022 and 2021.

NOTE 10: SUBSEQUENT EVENT

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings. While the disruption is expected to be temporary, there is some uncertainty about homeowners' continued ability to pay assessments. This could have a negative impact on operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

See independent auditors' report.

THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.

**SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS**

MAY 31, 2022

Crofton Perdue Associates, Inc. prepared a study dated October 13, 2017, to estimate the remaining useful lives and the replacement costs of components of common property. The estimates are based on estimated current replacement costs.

The following unaudited table is based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>
Roofs	4 to 7	\$ 439,498
Gutters/downspouts	4 to 7	59,544
Asphalt sealing	2	9,345
Painting and staining	1 to 6	13,662
Decks	1	10,000
Trees	1	3,000
Sidewalks	1	3,000
Landscaping	1	3,000

See independent auditors' report.

Client: **The Drumlins Homeowners Association, Inc.**
 Engagement: **2021-2022 - THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.**
 Period Ending: **5/31/2022**
 Trial Balance: **Ila - Trial Balance**
 Workpaper: **Ilb - Trial Balance Report**

Account	Description	1st PP-FINAL 5/31/2021	FINAL 5/31/2022
Group : [TB]	Trial Balance		
Subgroup : [1]	Balance Sheet		
1000	Cash - Ckg	12,305.79	3,893.78
1010	Cash - Svgs	203,971.97	282,111.19
1020	CD 1 - Mat 6/23/22 ✕	79,626.40	81,021.23
1030	CD 2 - Mat 9/29/22 ✕	102,804.90	100,000.00
1100	AR	565.00	2,600.00
1120	Other receivables	0.00	0.00
1150	Accrued interest receivable	0.00	249.12
1200	Prepaid Insurance	3,502.58	3,502.58
2000	Accounts Payable	(3,205.09)	(15,512.32)
2065	Contract Liabilities	(238,072.00)	(318,935.00)
2200	Prepaid Assessments	(1,353.38)	(1,708.38)
2300	Accrued Income Taxes	(748.00)	(1,455.00)
3000	Fund Balance - OP	(156,067.00)	(159,399.00)
3100	Fund Balance - MM	0.00	0.00
Subtotal [1] Balance Sheet		3,331.17	(23,631.80)
Subgroup : [2]	Income Statement		
4000	Homeowners fees	(147,045.00)	(133,637.00)
4001	Reserve offset	34,305.00	22,918.00
4100	Interest	(3,929.13)	(5,591.65)
4200	Late & Other	(205.00)	0.00
4500	Reserve Deposit	(34,305.00)	(22,918.00)
5000	Admin & Misc	1,527.20	2,203.90
5010	Contracted Rep	12,332.89	24,096.09
5020	Electric	639.38	659.99
5030	Insurance	19,229.06	20,360.08
5040	Management	16,791.12	16,791.12
5050	Professional Fees	1,500.00	1,700.00
5060	Snow plowing	10,204.45	10,216.33
5070	Summer	43,459.70	54,441.67
5080	Supplies	2,382.39	1,570.97
5090	Taxes	800.00	855.14
5100	NYS Franchise Tax	186.00	362.00
5110	Federal income tax	562.00	1,093.00
5500	Reserve R&M	28,174.77	25,740.31
5510	Reserve Supplies	0.00	0.00
5530	Reserve Landscape	10,059.00	2,769.85
Subtotal [2] Income Statement		(3,331.17)	23,631.80
Total [TB] Trial Balance		0.00	0.00

Client: **The Drumlins Homeowners Association, Inc.**
 Engagement: **2021-2022 - THE DRUMLINS HOMEOWNERS ASSOCIATION, INC.**
 Period Ending: **5/31/2022**
 Trial Balance: **Ila - Trial Balance**
 Workpaper: **Illa - AJE Report**

Account	Description	Debit	Credit
Adjusting Journal Entries			
Adjusting Journal Entries JE # 1			
To reclassify beginning contract liabilities			
3000	Fund Balance - OP	238,072.00	
2065	Contract Liabilities		238,072.00
Total		238,072.00	238,072.00
Adjusting Journal Entries JE # 2			
To adjust balances to actual and tie out beginning fund balance to PY tax return			
1100	AR	380.00	
1200	Prepaid Insurance	1,324.02	
2000	Accounts Payable	6,571.70	
2200	Prepaid Assessments	525.00	
2300	Accrued Income Taxes	1,077.00	
5000	Admin & Misc	796.96	
3000	Fund Balance - OP		8,112.68
4000	Homeowners fees		1,485.00
5090	Taxes		1,077.00
Total		10,674.68	10,674.68
Adjusting Journal Entries JE # 3			
To accrue accounts payable			
5000	Admin & Misc	76.46	
5010	Contracted Rep	12,710.00	
5010	Contracted Rep	306.38	
5070	Summer	2,365.00	
5080	Supplies	54.48	
2000	Accounts Payable		15,512.32
Total		15,512.32	15,512.32
Adjusting Journal Entries JE # 4			
To accrue income taxes			
5100	NYS Franchise Tax	362.00	
5110	Federal income tax	1,093.00	
2300	Accrued Income Taxes		1,455.00
Total		1,455.00	1,455.00
Adjusting Journal Entries JE # 5			
To adjust accrued interest			
4100	Interest	3,302.41	
1150	Accrued interest receivable		3,302.41
Total		3,302.41	3,302.41
Adjusting Journal Entries JE # 6			
To defer excess MM assessments to contract liabilities			
4000	Homeowners fees	80,863.00	
4500	Reserve Deposit	80,863.00	
2065	Contract Liabilities		80,863.00
4001	Reserve offset		80,863.00
Total		161,726.00	161,726.00
Total Adjusting Journal Entries		430,742.41	430,742.41