EAGLE ROCK COMMUNITY ASSOCIATION, INC.
Financial Statements
For the Years Ended December 31, 2023
and December 25, 2022
with Independent Auditors' Report

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HEXT AND ASSOCIATES

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INDEPENDENT AUDITORS' REPORT

To the Members of
Eagle Rock Community Association, Inc.

Opinion

We have audited the accompanying financial statements of Eagle Rock Community Association, Inc. ("ERCA") which comprise the balance sheet as of December 31, 2023, and the related statements of operations and changes in members' equity, and cash flows for the year 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 ERCA as of December 31, 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). 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 ERCA 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 the financial statements in accordance with GAAP, 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 ERCA's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 GAAS 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 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 GAAS, 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 ERCA'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 ERCA'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.

Other Matter

The financial statements of ERCA for the year ended December 25, 2022 was audited by another auditor who expressed an unmodified opinion on those statements on June 1, 2023.

Hext & Associates, P.C.

Dallas, Texas
May 29, 2024

EAGLE ROCK COMMUNITY ASSOCIATION, INC.

BALANCE SHEETS

	December 31, 2023	December 25, 2022
Assets		
Current Assets:		
Cash and cash equivalents	$ 4,233,503	$ 5,436,065
Receivables:		
Accounts receivable, net	71,224	291,438
Prepaid Expenses	30,597	12,448
Total Current Assets	4,335,324	5,739,951
Property and equipment, net	3,922,883	4,212,557
Right-of-use assts from finance leases, net.	26,225	-
Total Assets	$ 8,284,432	$ 9,952,508
Liabilities and Members' Equity		
Current Liabilities:		
Accounts payable	$ 161,228	$ 173,200
Accounts payable, related parties	778,380	1,640,353
Accrued expenses	187,232	495,747
Current portion of long-term debts	118,841	95,440
Current portion of liability from finance leases	7,439	-
Total Current Liabilities	1,253,120	2,404,740
Notes payable, Long-Term	125,601	175,832
Long-term portion of finance leases	16,726	-
Total Liabilities	1,395,447	2,580,572
Members' equity	6,888,985	7,371,936
Total Liabilities and Members' Equity	$ 8,284,432	$ 9,952,508

See accompanying notes to financial statements.

EAGLE ROCK COMMUNITY ASSOCIATION, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY

	Year ended December 31, 2023	Year ended December 25, 2022
Revenues:		
Maintenance fees	$ 9,479,481	$ 8,432,642
Other income	133,354	209,860
Total revenues	9,612,835	8,642,502
Expenses:		
General maintenance	1,638,982	1,381,733
Road repairs and maintenance	1,608,858	2,153,517
Subsidies	1,091,599	1,102,032
Resort overhead	1,221,552	1,125,908
Golf course maintenance	848,943	870,998
Aquatic center	1,057,707	707,538
Security	653,544	485,419
Depreciation and amortization	412,542	446,448
Activity center	518,057	327,595
Bad debt expense	558,871	220,495
Interest	15,989	18,046
Total expenses	9,626,644	8,839,729
Loss from operations	(13,809)	(197,227)
Other income/(expense):		
Gain on sale of property and equipment	-	10,000
Other expense	(469,142)	-
Total other income	(469,142)	10,000
Net loss	(482,951)	(187,227)
Members' equity, beginning	7,371,936	7,559,163
Members' Equity, ending	$ 6,888,985	$ 7,371,936

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

	Year ended December 31, 2023	Year ended December 25, 2022
Operating Activities:		
Net loss	$ (482,951)	$ (187,227)
Adjustments to reconcile net income/(loss)		
to net cash provided by operating activities:		
Depreciation expense	412,542	446,448
Bad debt expense	558,871	220,495
Gain on sale of property and equipment	-	(10,000)
Changes in operating assets and liabilities:		
Accounts receivable	(338,657)	(293,325)
Accounts receivable/payable, related parties	(861,973)	1,951,353
Prepaid expenses	(18,149)	659
Accounts payable and accrued expenses	(320,487)	112,542
Net cash provided by/(used for) operating activities	(1,050,805)	2,240,945
Investing Activities:		
Purchase of property and equipment	(37,090)	-
Net cash used in investing activities	(37,090)	-
Financing Activities:		
Principle payments on notes payable	(109,968)	(149,647)
Payments on finance lease obligations	(4,699)	-
Net cash used in financing activities	(114,667)	(149,647)
Net increase/(decrease) in cash and cash equivalents	(1,202,562)	2,091,298
Cash and cash equivalents at the beginning of year	5,436,065	3,344,767
Cash and cash equivalents at the end of year	$ 4,233,503	$ 5,436,065
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	$ 15,989	$ 18,046
Acquisition of property and equipment through finance lease	$ 28,862	$ -
Noncash Investing and Financing Activities		
Acquisition of property and equipment through notes payable	$ 83,141	$ 35,513

See accompanying notes to financial statements.

NOTE 1. Nature of Operations

Eagle Rock Community Association, Inc. ("ERCA") was incorporated as a not-for-profit corporation on October 2, 1996, in the Commonwealth of Pennsylvania. ERCA is responsible for the security and the maintenance of the golf course, aquatic center, and common property within the development. The development consists of approximately 9,800 residential units located on approximately 6,000 acres in Northern Pennsylvania.

NOTE 2. Summary of Significant Accounting Policies

A summary of ERCA significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Financial Statement Presentation

ERCA's financial statements are reported using thirteen-week quarters made up of two four-week periods followed by a five-week period. The fiscal years ended on December 31, 2023 and December 25, 2022, respectively.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts in the financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Income Taxes

ERCA elected to be taxed as a homeowners' association. Under that election, ERCA is taxed on its nonexempt function income, such as interest earnings, at a flat rate of 30 percent. Exempt function income, which consists primarily of assessments, is not taxable.

In addition, ERCA applies Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Accounting for Uncertainty in Income Taxes, and has evaluated its uncertain tax positions and has not identified any material uncertain tax positions that would not be sustained in a federal or state income tax examination or that require disclosure. Accordingly, no provision for uncertain tax positions in income taxes has been made in the accompanying financial statements. ERCA is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the management of ERCA considers cash accounts with an original maturity of three months or less to be cash equivalents. ERCA maintains cash and cash equivalents at several financial institutions, which at times may exceed federally insured limits. ERCA has not experienced any losses on such accounts.

NOTE 2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Accounts receivable consist of delinquent member assessments and billings for other services ERCA provides, and they are stated at amounts management expects to collect from outstanding balances. All receivables are owed by property owners within ERCA. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Account balances that have been delinquent for over two years have been included in the allowance for doubtful accounts. As of December 31, 2023 and December 25, 2022, the allowance for doubtful accounts were $1,986,863 and $1,427,992, respectively.

Revenue Recognition

ERCA's members are subject to semi-annual assessments to provide funds for ERCA's operating expenses, future capital acquisitions, and major repairs and replacements. Accounts receivable, at the balance sheet date, represent fees due from lot owners. Members are billed monthly for maintenance fees which are recognized over the month in which they relate as ERCA provides maintenance on properties and quality of life improvements.

Contract assets represent ERCA's right to consideration based on satisfied performance obligations from contracts with customers. All non-related party accounts receivables on the accompanying balance sheets are contract assets.

Property and Equipment

ERCA capitalizes property and equipment to which it has title or other evidence of ownership. Maintenance, repairs, and minor improvements that do not extend the useful life of an asset are expensed as incurred. Property and equipment acquired by ERCA is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. ERCA capitalizes assets with a value of more than $2,500 and a useful life greater than two years.

Leases

ERCA adopted ASC 842 effective January 1, 2022, using the modified retrospective approach. In transitioning to this standard, ERCA elected to use the practical expedient package available at the time of implementation and did not elect to use hindsight. These elections have been applied consistently to all leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption).

ERCA elected the package of practical expedients permitted under the transition guidance, allowing carry forward conclusions related to: (a) whether expired or existing contracts contain leases; (b) lease classification; and (c) initial direct costs for existing leases. ERCA has elected not to record operating lease right-of-use assets or lease liabilities associated with leases with durations of 12 months or less. ERCA elected the practical expedient allowing aggregation of non-lease components with related lease components when evaluating the accounting treatment for all classes of underlying assets.

NOTE 2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations.

NOTE 3. Property and Equipment

Property and equipment by major classification and the related accumulated depreciation consists of the following:

	December 31, 2023	December 25, 2022
Aquatic Center	$ 3,336,126	$ 3,336,126
Golf course maintenance equipment	3,715,716	3,595,485
Activity center	1,253,002	1,253,002
General maintenance equipment	459,049	459,049
Total depreciable assets	8,763,893	8,643,662
Less: accumulated depreciation	(4,841,010)	(4,431,105)
Property and equipment, net	$ 3,922,883	$ 4,212,557

NOTE 4. Notes Payable

Notes payable consists of the following:

	December 31, 2023	December 25, 2022
Note payable to FNCB Bank for equipment maturing on August 12, 2025, monthly principal and interest payments of $386 began on September 12, 2020. Interest rate is 4.25%, collateralized by the assets purchased.	$ 7,425	$ 11,637
Note payable to FNCB Bank for equipment, maturing on July 23, 2025, monthly principal and interest payments of $3,705 began on August 23, 2020. Interest rate is 4.25%, collateralized by the assets purchased.	71,247	111,857

NOTE 4. Notes Payable (continued)

	December 31, 2023	December 25, 2022
Note payable to FNCB for equipment, maturing on October 25, 2025, monthly principal and interest payments of $719 began on November 2, 2020. Interest rate is 4.25%, collateralized by the assets purchased.	15,155	22,940
Note payable to FNCB Bank for a vehicle maturing on December 15, 2025, monthly principal and interest payments of $563 began on January 15, 2021. Interest rate is 4.25%, collateralized by the assets purchased.	12,918	18,980
Note payable to FMC Bank for equipment maturing on December 4, 2025, monthly principal and interest payments of $600 began on March 4, 2021. Interest rate is 4.25%, collateralized by the assets purchased.	13,767	20,221
Note payable to FNCB Bank for a vehicle, maturing on April 26, 2024, monthly principal and interest payments of $754 began on April 15, 2021. Interest rate is 2.44%, collateralized by the assets purchased.	2,241	11,121
Note payable to FNCB for equipment, maturing on May 27, 2026, monthly principal and interest payments of $352 began on May 27, 2021. Interest rate is 4.5%, collateralized by the assets purchased.	9,990	13,714
Note payable to Ford Motor Credit for a vehicle, maturing on June 25, 2027, monthly principal and interest payments of $515 began on June 25, 2021. Interest rate is 7.59%, collateralized by the assets purchased.	18,451	23,044
Note payable to Independence Auto Inc. for a vehicle, maturing on September 26, 2025, monthly principal and interest payments of $1,146 began on January 26, 2023. Interest rate is 1.9%, collateralized by the assets purchased.	21,539	37,758
Note payable to Tom Masano Ford Inc for a vehicle, maturing on March 26, 2027, monthly principal and interest payments of $1,149 began on March 26, 2023. Interest rate is 10.34%, collateralized by the assets purchased.	37,911	-

NOTE 4. Notes Payable (continued)

	December 31, 2023	December 25, 2022
Note payable to Tom Masano Ford Inc for a vehicle, maturing on June 3, 2027, monthly principal and interest payments of $979 began on June 3, 2023. Interest rate is 10.14%, collateralized by the assets purchased.	33,798	-
Total	244,442	271,272
Less: Current Portion	(118,841)	(95,440)
Total	$ 125,601	$ 175,832

For the years ended December 31, 2023 and December 25, 2022, interest expense were $15,989 and $18,046, respectively.

Principal payments on notes payable and other long-term debt over the next five years are as follows:

2024	$ 118,841
2025	84,420
2026	30,631
2027	10,550
Thereafter	-
Total	$ 244,442

NOTE 5. Related Party Transactions

ERCA is affiliated with a group of companies under the control of the developer of the community. In the normal course of business, ERCA utilizes a centralized disbursement system whereby available cash balances are transferred to centralized accounts from which disbursements are paid on behalf of ERCA. Related party transactions with these affiliated companies are as follows:

	December 31, 2023	December 25, 2022
Accounts payable, related party	$ 778,380	$ 1,640,353
Management fee expense	$ 45,850	$ 55,020
Subsidies	$ 1,091,599	$ 1,102,032

NOTE 6. Leases

In 2023, ERCA leased an equipment from Deere Credit. The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, ERCA utilizes the risk-free rate. ROU assets include any lease payments required to be made prior to commencement and exclude lease incentives. Both ROU assets and lease liabilities exclude variable payments not based on an index or rate, which are treated as period costs. ERCA's lease agreements do not contain significant residual value guarantees, restrictions or covenants.

The finance lease costs for amortization of ROU assets and interest on lease liabilities were $2,899 for the year ended December 31, 2023. There were no short-term lease costs or operating leases for the years ended December 31, 2023 and December 25, 2022.

Maturities of finance lease liabilities as of December 31, 2023 are as follows:

2024	$	7,439
2025		7,439
2026		7,439
2027		2,480
Total lease payments		24,797
Less present value discount		(632)
Lease liabilities	$	24,165

Weighted average lease term and discount rate as of December 31, 2023 are as follows:

Weighted average remaining lease term (years)	
Finance leases	4
Weighted average discount rate	
Discount rate	1.50%

Cash paid during the year ended on December 31, 2023 for finance leases is as follows:

Operating cash flows	$	(4,960)

Rights of use of assets under the finance lease consist of the following as of December 31, 2023:

ROU - Maintenance equipment	$	28,862
Less: accumulated amortization		(2,637)
ROU assets finance leases, net	$	26,225

Note 7. Future Major Repairs and Replacements

ERCA's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. When funds are required for major repairs and replacements, ERCA plans to borrow, increase maintenance assessments, or delay repairs and replacements until funds are available.

NOTE 8. Subsequent Events

In preparing the financial statements, ERCA has evaluated all subsequent events and transactions for potential recognition or disclosure through May 29, 2024, the date the financial statements were available for issuance.