

**THE FOREST HIGHLANDS  
ASSOCIATION AND SUBSIDIARIES**

FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

Together with Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Members of *The Forest Highlands Association and Subsidiaries*  
Flagstaff, Arizona

***Report on the Financial Statements***

We have audited the accompanying financial statements of *The Forest Highlands Association and Subsidiaries*, which comprise the consolidating balance sheet as of December 31, 2020 and consolidated balance sheet as of December 31, 2019, and the related consolidating and consolidated statements of assessments, revenues, and expenses, members' 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.

***Auditors' 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 audits 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 *The Forest Highlands Association and Subsidiaries* as of December 31, 2020 and 2019 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audits. Our opinion on the financial statements is not modified with respect to this matter.

***Disclaimer of Opinion on Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 19-20 be presented to supplement the basic financial statements. Such 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. 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 audits 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.

Barry & Moore CPAs, PLC  
Phoenix, Arizona  
March 8, 2021

*Barry & Moore CPAs, PLC*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
BALANCE SHEETS  
DECEMBER 31, 2020 AND 2019

<u>ASSETS</u>	CONSOLIDATING					CONSOLIDATED	
	ASSOCIATION	WATER COMPANY	WASTEWATER COMPANY	FHEAGO	ELIMINATIONS	2020	2019
<b>CURRENT ASSETS:</b>							
Cash	\$ 1,133,834	\$ 36,219	\$ 270,990	\$ 67,420	\$ -	\$ 1,508,463	\$ 781,143
Investments:							
Reserve Fund	6,090,040	-	-	-	-	6,090,040	6,931,583
Capital Fund	3,502,462	-	-	-	-	3,502,462	1,000,000
Operating Fund	1,073,791	-	-	-	-	1,073,791	759,955
Member receivables, net of the allowance for uncollectible accounts of \$30,000 in 2020 and \$32,266 in 2019	144,210	13,865	8,000	-	-	166,075	298,575
Other receivables	160,047	(374)	20,000	-	-	179,673	207,730
Intercompany receivables	276,253	-	173,362	844	(450,459)	-	-
Inventories	366,730	1,075	4,073	-	-	371,878	418,454
Prepaid expenses	281,242	-	-	-	-	281,242	212,715
Total current assets	13,028,609	50,785	476,425	68,264	(450,459)	13,173,624	10,610,155
<b>INVESTMENTS IN SUBSIDIARIES:</b>							
Forest Highlands Water Company	206,620	-	-	-	(206,620)	-	-
Forest Highlands Wastewater Reclamation Company	2,595,513	-	-	-	(2,595,513)	-	-
FH Education & Amateur Golf Organization	68,264	-	-	-	(68,264)	-	-
Total investments in subsidiaries	2,870,397	-	-	-	(2,870,397)	-	-
<b>PROPERTY AND EQUIPMENT:</b>							
Contributed assets:							
Golf course land and improvements	17,549,931	-	-	-	-	17,549,931	17,925,056
Common area land and improvements	1,870,832	-	-	-	-	1,870,832	1,870,832
Golf course equipment	728,000	-	-	-	-	728,000	728,000
Clubhouse and furnishings	9,330,088	-	-	-	-	9,330,088	9,330,088
Utilities	-	5,642,728	6,626,836	-	-	12,269,564	12,269,564
Purchased assets:							
Golf course improvements	7,405,955	-	-	-	-	7,405,955	5,991,902
Buildings and improvements	14,406,020	-	-	-	-	14,406,020	14,759,916
Vehicles	813,283	-	-	-	-	813,283	674,242
Natural gas facilities	-	-	-	-	-	-	6,941
Furnishings and equipment	10,919,423	-	-	-	-	10,919,423	10,443,449
Common area land improvements	4,937,963	-	-	-	-	4,937,963	3,801,837
Utilities	-	1,682,176	3,424,313	-	-	5,106,489	4,487,405
Total property and equipment	67,961,495	7,324,904	10,051,149	-	-	85,337,548	82,289,232
Less - accumulated depreciation	(26,357,422)	(5,414,774)	(7,147,472)	-	-	(38,919,668)	(37,616,669)
Net property and equipment	41,604,073	1,910,130	2,903,677	-	-	46,417,880	44,672,563
<b>TOTAL ASSETS</b>	<b>\$ 57,503,079</b>	<b>\$ 1,960,915</b>	<b>\$ 3,380,102</b>	<b>\$ 68,264</b>	<b>\$ (3,320,856)</b>	<b>\$ 59,591,504</b>	<b>\$ 55,282,718</b>

*See accompanying notes and independent auditors' report*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
BALANCE SHEETS *(Continued)*  
DECEMBER 31, 2020 AND 2019

<u>LIABILITIES AND MEMBERS' EQUITY</u>	<u>CONSOLIDATING</u>					<u>CONSOLIDATED</u>	
	<u>ASSOCIATION</u>	<u>WATER COMPANY</u>	<u>WASTEWATER COMPANY</u>	<u>FHEAGO</u>	<u>ELIMINATIONS</u>	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES:							
Accounts payable	\$ 290,486	\$ 4,429	\$ 8,768	\$ -	\$ -	\$ 303,683	\$ 43,882
Accrued liabilities	719,042	66,792	12,438	-	-	798,272	740,401
Prepaid member assessments	638,280	-	-	-	-	638,280	421,800
Capital lease obligations, current portion	124,465	-	-	-	-	124,465	29,549
Intercompany payables	844	293,546	156,069	-	(450,459)	-	-
Total current liabilities	<u>1,773,117</u>	<u>364,767</u>	<u>177,275</u>	<u>-</u>	<u>(450,459)</u>	<u>1,864,700</u>	<u>1,235,632</u>
CAPITAL LEASE OBLIGATIONS, noncurrent portion	424,006	-	-	-	-	424,006	120,503
CONTRIBUTIONS IN AID OF CONSTRUCTION, net	-	1,389,528	607,314	-	-	1,996,842	2,182,549
Total liabilities	<u>2,197,123</u>	<u>1,754,295</u>	<u>784,589</u>	<u>-</u>	<u>(450,459)</u>	<u>4,285,548</u>	<u>3,538,684</u>
MEMBERS' EQUITY:							
Common stock	-	4,861,824	3,050,908	-	(7,912,732)	-	-
Additional paid-in capital	50,933,758	1,543,222	4,622,059	67,176	(6,232,457)	50,933,758	50,528,758
Accumulated losses	(34,997,574)	(6,198,426)	(5,077,454)	1,088	11,274,792	(34,997,574)	(33,721,800)
Capital contribution fees	29,978,718	-	-	-	-	29,978,718	25,633,218
Capital improvement assessments	9,294,905	-	-	-	-	9,294,905	9,294,905
Unrealized gain on bonds	96,149	-	-	-	-	96,149	8,953
Total members' equity	<u>55,305,956</u>	<u>206,620</u>	<u>2,595,513</u>	<u>68,264</u>	<u>(2,870,397)</u>	<u>55,305,956</u>	<u>51,744,034</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 57,503,079</u>	<u>\$ 1,960,915</u>	<u>\$ 3,380,102</u>	<u>\$ 68,264</u>	<u>\$ (3,320,856)</u>	<u>\$ 59,591,504</u>	<u>\$ 55,282,718</u>

*See accompanying notes and independent auditors' report*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
STATEMENTS OF ASSESSMENTS, REVENUES, AND EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	CONSOLIDATING					CONSOLIDATED	
	ASSOCIATION	WATER COMPANY	WASTEWATER COMPANY	FHEAGO	ELIMINATIONS	2020	2019
<b>ASSESSMENTS AND REVENUES:</b>							
Member assessments	\$ 9,660,670	\$ -	\$ -	\$ -	\$ -	\$ 9,660,670	\$ 9,120,654
Golf operations	1,757,692	-	-	-	-	1,757,692	1,683,963
Food and beverage	1,624,396	-	-	-	-	1,624,396	2,031,617
Safety and compliance	448,817	-	-	-	-	448,817	417,478
Recreation	416,946	-	-	-	-	416,946	447,393
Residential and commercial water	-	445,408	-	-	(30,627)	414,781	362,488
Irrigation	-	56,408	-	-	(56,408)	-	-
Wastewater service	-	-	466,488	-	-	466,488	433,041
Sewer tap-in fees	-	-	444,000	-	-	444,000	284,000
Contributions	-	-	-	6,224	-	6,224	167,282
Other	512,150	39,894	13,672	-	(89,184)	476,532	407,918
Net gain on investments in subsidiaries	56,932	-	-	-	(56,932)	-	-
Total assessments and revenues	<u>14,477,603</u>	<u>541,710</u>	<u>924,160</u>	<u>6,224</u>	<u>(233,151)</u>	<u>15,716,546</u>	<u>15,355,834</u>
<b>EXPENSES:</b>							
Food and beverage	3,820,800	-	-	-	-	3,820,800	3,145,533
Golf course maintenance	2,466,325	-	-	-	(87,035)	2,379,290	2,249,039
Golf operations	2,233,567	-	-	-	-	2,233,567	2,249,209
General and administrative	1,586,181	-	-	-	-	1,586,181	2,037,204
Recreation	1,133,359	-	-	-	-	1,133,359	1,058,132
Common area maintenance	1,116,335	-	-	-	-	1,116,335	852,925
Safety and compliance	921,413	-	-	-	-	921,413	844,295
Operating expenses	-	527,438	526,067	5,147	(89,184)	969,468	1,174,254
Total expenses	<u>13,277,980</u>	<u>527,438</u>	<u>526,067</u>	<u>5,147</u>	<u>(176,219)</u>	<u>14,160,413</u>	<u>13,610,591</u>
OPERATING INCOME	1,199,623	14,272	398,093	1,077	(56,932)	1,556,133	1,745,243
OTHER INCOME (EXPENSE), net	(81,049)	(6,757)	(111,074)	11	-	(198,869)	234,645
PROVISION FOR UNCOLLECTIBLE RECEIVABLES	(14,885)	-	-	-	-	(14,885)	(12,000)
DEPRECIATION EXPENSE	<u>(2,379,463)</u>	<u>(113,724)</u>	<u>(124,966)</u>	<u>-</u>	<u>-</u>	<u>(2,618,153)</u>	<u>(2,450,270)</u>
EXCESS (DEFICIENCY) OF ASSESSMENTS AND REVENUES OVER EXPENSES	<u>\$ (1,275,774)</u>	<u>\$ (106,209)</u>	<u>\$ 162,053</u>	<u>\$ 1,088</u>	<u>\$ (56,932)</u>	<u>\$ (1,275,774)</u>	<u>\$ (482,382)</u>

*See accompanying notes and independent auditors' report*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
CONSOLIDATING STATEMENTS OF MEMBERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>ASSOCIATION</u>	<u>WATER COMPANY</u>	<u>WASTEWATER COMPANY</u>	<u>FHEAGO</u>	<u>ELIMINATIONS</u>	<u>CONSOLIDATED</u>
MEMBERS' EQUITY, JANUARY 1, 2019	\$ 49,158,168	\$ 263,245	\$ 2,300,612	\$ 70,435	\$ (2,634,292)	\$ 49,158,168
CAPITAL CONTRIBUTION FEES	2,924,500	-	-	-	-	2,924,500
SPECIAL MEMBERSHIP FEE	50,000	-	-	-	-	50,000
ADDITIONAL PAID-IN CAPITAL	-	174,148	-	-	(174,148)	-
UNREALIZED GAIN ON BONDS	93,748	-	-	-	-	93,748
EXCESS (DEFICIENCY) OF ASSESSMENTS AND REVENUES OVER EXPENSES	<u>(482,382)</u>	<u>(127,729)</u>	<u>132,848</u>	<u>(3,259)</u>	<u>(1,860)</u>	<u>(482,382)</u>
MEMBERS' EQUITY, DECEMBER 31, 2019	51,744,034	309,664	2,433,460	67,176	(2,810,300)	51,744,034
CAPITAL CONTRIBUTION FEES	4,345,500	-	-	-	-	4,345,500
SPECIAL MEMBERSHIP FEES	405,000	-	-	-	-	405,000
ADDITIONAL PAID-IN CAPITAL	-	3,165	-	-	(3,165)	-
UNREALIZED GAIN ON BONDS	87,196	-	-	-	-	87,196
EXCESS (DEFICIENCY) OF ASSESSMENTS AND REVENUES OVER EXPENSES	<u>(1,275,774)</u>	<u>(106,209)</u>	<u>162,053</u>	<u>1,088</u>	<u>(56,932)</u>	<u>(1,275,774)</u>
MEMBERS' EQUITY, DECEMBER 31, 2020	<u>\$ 55,305,956</u>	<u>\$ 206,620</u>	<u>\$ 2,595,513</u>	<u>\$ 68,264</u>	<u>\$ (2,870,397)</u>	<u>\$ 55,305,956</u>

*See accompanying notes and independent auditors' report*



THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	CONSOLIDATING					CONSOLIDATED	
	ASSOCIATION	WATER COMPANY	WASTEWATER COMPANY	FHEAGO	ELIMINATIONS	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>							
Excess (deficiency) of assessments and revenues over expenses	\$ (1,275,774)	\$ (106,209)	\$ 162,053	\$ 1,088	\$ (56,932)	\$ (1,275,774)	\$ (482,382)
Adjustments to reconcile excess (deficiency) of assessments and revenues over expenses to net cash flows from operations:							
Items not requiring an outlay of cash:							
Net gain on investments	(156,773)	-	-	-	-	(156,773)	(54,629)
Net gain on investments in subsidiaries	(56,932)	-	-	-	56,932	-	-
Depreciation expense	2,379,463	113,724	124,966	-	-	2,618,153	2,450,270
Loss on disposal of property and equipment	385,639	6,707	111,125	-	-	503,471	17,745
(Increase) decrease in:							
Member receivables, net	40,721	2,779	(8,000)	-	-	35,500	(78,945)
Other receivables	25,672	2,385	-	-	-	28,057	36,433
Inventories	50,882	(233)	(4,073)	-	-	46,576	(23,007)
Prepaid expenses	(68,527)	-	-	-	-	(68,527)	(73,914)
Increase (decrease) in:							
Accounts payable	250,762	4,033	5,008	-	-	259,803	(108,832)
Accrued liabilities	33,450	23,957	464	-	-	57,871	(94,382)
Prepaid member assessments	216,480	-	-	-	-	216,480	(54,725)
Net cash flows from operating activities	<u>1,825,063</u>	<u>47,143</u>	<u>391,543</u>	<u>1,088</u>	<u>-</u>	<u>2,264,837</u>	<u>1,533,632</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>							
Reserve Fund	976,286	-	-	-	-	976,286	(1,563,090)
Capital Fund	(763,804)	-	-	-	-	(763,804)	(152,255)
Operating Fund	(23,102)	-	-	-	-	(23,102)	8,296
Intercompany receivables	(139,091)	-	(17,270)	(844)	157,205	-	-
Investments in subsidiaries	(3,165)	-	-	-	3,165	-	-
Investment in natural gas facilities	-	-	-	-	-	-	7,000
Proceeds from sales of property and equipment	-	-	-	-	-	-	11,436
Purchases of property and equipment	(3,496,611)	(96,127)	(794,085)	-	-	(4,386,823)	(2,028,909)
Net cash flows from investing activities	<u>(3,449,487)</u>	<u>(96,127)</u>	<u>(811,355)</u>	<u>(844)</u>	<u>160,370</u>	<u>(4,197,443)</u>	<u>(3,717,522)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>							
Intercompany payables	844	62,066	96,541	(2,246)	(157,205)	-	-
Principal payments under capital lease obligations	(93,016)	-	-	-	-	(93,016)	(11,833)
Contributed capital	-	3,165	-	-	(3,165)	-	-
Special membership fees collected	405,000	-	-	-	-	405,000	50,000
Capital contribution fees collected	4,442,500	-	-	-	-	4,442,500	2,827,500
Net cash flows from financing activities	<u>4,755,328</u>	<u>65,231</u>	<u>96,541</u>	<u>(2,246)</u>	<u>(160,370)</u>	<u>4,754,484</u>	<u>2,865,667</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>3,130,904</u>	<u>16,247</u>	<u>(323,271)</u>	<u>(2,002)</u>	<u>-</u>	<u>2,821,878</u>	<u>681,777</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,770,719</u>	<u>19,972</u>	<u>594,261</u>	<u>69,422</u>	<u>-</u>	<u>3,454,374</u>	<u>2,772,597</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,901,623</u>	<u>\$ 36,219</u>	<u>\$ 270,990</u>	<u>\$ 67,420</u>	<u>\$ -</u>	<u>\$ 6,276,252</u>	<u>\$ 3,454,374</u>

*See accompanying notes and independent auditors' report*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019

(1) ORGANIZATION AND OPERATIONS:

The Forest Highlands Association was formed as a nonprofit Arizona corporation in 1987 to operate and maintain the common areas at Forest Highlands. Forest Highlands is a master-planned residential golf club community located in Coconino County, Arizona, approximately six miles south of the City of Flagstaff, Arizona.

The Forest Highlands Association was established by the Declaration of Covenants, Conditions and Restrictions for Forest Highlands and the Articles of Incorporation of The Forest Highlands Association. Operations are governed by the Bylaws of The Forest Highlands Association. Membership is mandatory by virtue of ownership of a lot at Forest Highlands. A nine-member Board of Directors, elected by the membership, manages the Association in accordance with the governing documents and applicable statutes.

The first phase of Forest Highlands opened in 1987, consists of common areas and 649 homesites on 657 acres, and includes the Canyon golf course. The second phase of Forest Highlands opened in 1998, consists of common areas and 170 homesites on 460 acres, and includes the Meadow golf course. Forest Highlands currently has 819 regular members, 28 special members, and 3 founding members.

The common areas at Forest Highlands for which The Forest Highlands Association is responsible consist of land, roads, golf courses, clubhouses, recreation facilities, drainage systems, water facilities, wastewater facilities, office space, and equipment storage facilities. Much of the property was conveyed by the developers.

The accompanying financial statements include the accounts of The Forest Highlands Association and its subsidiaries (collectively, the Association), Forest Highlands Water Company, Forest Highlands Wastewater Reclamation Company, and FH Education & Amateur Golf Organization. All material intercompany transactions have been eliminated in consolidation.

Forest Highlands Water Company was formed as a for-profit Arizona corporation in 1987 to provide water services at Forest Highlands.

Forest Highlands Wastewater Reclamation Company was formed as a nonprofit Arizona corporation in 1988 to provide wastewater services at Forest Highlands.

FH Education & Amateur Golf Organization was formed as a nonprofit Arizona corporation in 2016 to provide education scholarships and amateur golf events. FH Education & Amateur Golf Organization is a public charity under Internal Revenue Code section 501(c)(3).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation-

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting policies (GAAP).

Estimates-

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These affect the reported amounts of 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 these estimates.

Investments-

The Association's investments consist of cash, money market funds, bonds, bond funds, and equity funds. Investments are stated at fair value. Interest, dividends, realized gains and losses, unrealized gains and losses on bond funds and equity funds, and account fees are included in other income. Dividends earned are reinvested in the respective funds. Unrealized gains and losses on bonds are included as a separate component of members' equity until realized.

Member Receivables-

The Association provides an allowance for uncollectible accounts on member receivables based on a review of the current status of existing receivables and historical collection experience. Receivables are charged to the allowance when accounts are deemed to be uncollectible. Member receivables over 90 days past due are considered delinquent. Delinquent receivables are written off based on management's evaluation of individual member circumstances. At December 31, 2020 and 2019, respectively, there were \$20,557 and \$19,244 of member receivables over 90 days past due.

Inventories-

Inventories are stated at the lower of cost or market value, using the average cost method.

Property and Equipment-

Property and equipment include those assets purchased or constructed by the Association and assets that were purchased or constructed by the developers and subsequently contributed to the Association. Property and equipment are recorded at the cost to the Association or the developers.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Property and Equipment (Continued)-

Depreciation is determined on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Furnishings and equipment	3-30
Vehicles	5
Improvements	5-40
Buildings and wells	5-50

Valuation of Long-Lived Assets-

Management periodically evaluates the carrying value of long-lived assets when events and circumstances warrant such a review. If the carrying value of a long-lived asset is considered impaired, a loss is recognized based on the amount by which the carrying value exceeds the fair market value. Management does not believe impairment existed at December 31, 2020.

Recognition of Member Assessments-

Member assessments are billed and recognized as revenue monthly. Any prepaid amounts are recorded as prepaid member assessments until the respective month. Any unpaid amounts are recorded as member receivables until collected. Member assessments are exempt from sales taxes. The Association experiences minimal bad debts as it can lien properties and obtain personal judgements.

Recognition of Revenues-

Revenues consist of merchandise sales and fees for use of amenities, facilities, and services. All revenues associated with specific consumption and usage are recognized at a point in time when the customer takes physical possession of the merchandise or the service is provided because the risks and rewards of ownership transfer to the customer who obtains the benefit and has a present obligation to pay. Taxes the Association collects concurrent with revenue-producing activities are excluded from revenues. The Association experiences minimal returns, warranty claims, and bad debts.

Contributions are recorded as revenue when received. FH Education & Amateur Golf Organization has no revenue or net assets with donor restrictions.

(3) SUPPLEMENTAL CASH FLOW INFORMATION:

	<u>2020</u>	<u>2019</u>
Equipment acquired with capital leases	\$ 497,025	\$ 161,885
Interest paid	22,775	3,661
Income taxes paid	100	100

(4) CASH:

Total cash and cash equivalents per the statements of cash flows is included in the balance sheets within the following line items at December 31:

	<u>2020</u>	<u>2019</u>
Cash	\$ 1,508,463	\$ 781,143
Investments:		
Reserve Fund:		
Cash	790,215	1,631,811
Cash equivalents	1,401,271	443,554
Capital Fund:		
Cash	1,832,175	492,681
Cash equivalents	441,623	42,459
Operating Fund:		
Cash equivalents	<u>302,505</u>	<u>62,726</u>
	<u>\$ 6,276,252</u>	<u>\$ 3,454,374</u>

(5) INVESTMENTS:

Interest and dividends for 2020 and 2019 were \$169,872 and \$180,844, respectively. Net investment gains for 2020 and 2019 were \$95,998 and \$148,377, respectively. Account fees for 2020 and 2019 were \$27,546 and \$23,599, respectively.

The Association invests primarily in debt instruments. The fair value of these investments will generally increase when interest rates decline and decrease when interest rates rise. As of December 31, 2020 and 2019, the net unrealized gain on all investments was \$224,309 and \$67,535, respectively.

The Association maintains investments in separate funds designated by the Board of Directors for different purposes.

Reserve Fund-

The Reserve Fund is maintained to finance the future repair and replacement of existing assets as outlined in the supplementary information on future major repairs and replacements on Schedule 1. The Reserve Fund is funded through member assessments, capital contribution fees, and special membership fees.

Capital Fund-

The Capital Fund is maintained to finance purchases of new assets. The Capital Fund is funded through capital contribution fees and special membership fees.

Operating Fund-

The Operating Fund is maintained to finance operations under extraordinary circumstances. The Operating Fund was funded by the proceeds from the 2015 sale of a land easement.

(5) INVESTMENTS (Continued):

Investments consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Reserve Fund:		
Cash	\$ 790,215	\$ 1,631,811
Cash equivalents	1,401,271	443,554
Bonds	3,723,961	4,441,364
Bond funds	<u>174,593</u>	<u>414,854</u>
Total Reserve Fund	6,090,040	6,931,583
Capital Fund:		
Cash	1,832,175	492,681
Cash equivalents	441,623	42,459
Bonds	1,173,640	425,148
Bond funds	<u>55,024</u>	<u>39,712</u>
Total Capital Fund	3,502,462	1,000,000
Operating Fund:		
Cash equivalents	302,505	62,726
Bond funds	508,346	489,310
Equity funds	<u>262,940</u>	<u>207,919</u>
Total Operating Fund	<u>1,073,791</u>	<u>759,955</u>
	<u>\$ 10,666,293</u>	<u>\$ 8,691,538</u>

(6) INVENTORIES:

Inventories consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Food and beverage	\$ 219,619	\$ 194,154
Golf shop merchandise	128,239	204,586
Gate transponders	18,872	18,872
Utilities	<u>5,148</u>	<u>842</u>
	<u>\$ 371,878</u>	<u>\$ 418,454</u>

(7) REVOLVING LINE OF CREDIT:

The Association maintains a \$1,500,000 revolving line of credit with a bank. Outstanding borrowings are charged interest at LIBOR plus 4.692%. The member receivables, inventory, furniture, equipment, and titled vehicles are assigned as collateral. There were no outstanding borrowings in 2020 or 2019.

(8) CAPITAL LEASE OBLIGATIONS:

Property and equipment include two capitalized leases for golf course maintenance equipment that were obtained in 2019 and 2020. The amount capitalized in equipment totaled \$658,910 and \$161,885 at December 31, 2020 and 2019, respectively. Capital lease amortization, included in depreciation expense, totaled \$90,364 and \$10,792 for 2020 and 2019, respectively. Accumulated amortization, included in accumulated depreciation, on equipment acquired via capital lease totaled \$101,156 and \$10,792 at December 31, 2020 and 2019, respectively.

The future minimum lease payments by year required under these capital leases, together with the present value of the minimum lease payments discounted at 5.59%, are as follows:

Year ending December 31,	
2021	\$ 150,076
2022	150,076
2023	150,076
2024	134,581
2025	37,630
	<hr/>
Total minimum lease payments	622,439
Less - amount representing interest	(73,968)
	<hr/>
Total present value of minimum lease payments	548,471
Less - current portion of obligations	(124,465)
	<hr/>
Non-current portion of obligations	<u>\$ 424,006</u>

(9) CAPITAL CONTRIBUTION FEES:

The capital contribution fee paid to the Association by each new member purchasing property within Forest Highlands was \$50,000 and \$48,500 for 2020 and 2019, respectively. Capital contribution fees totaled \$4,345,000 and \$2,924,500 in 2020 and 2019, respectively. Terminating members do not receive a refund of their capital contribution fees.

(10) SPECIAL MEMBERSHIPS:

Special memberships are available for individuals to be a member of the Association without owning property within Forest Highlands. The Board of Directors approved the sale of up to 25 special memberships in 2020 and up to 10 special memberships in 2019. Special memberships may be sold to the public for \$50,000 each or to a family member of an existing member or a recent previous member for \$15,000 each. There were 13 special memberships sold in 2020 for a total of \$405,000 and one special membership sold in 2019 for \$50,000.

(11) MEMBER ASSESSMENTS:

Monthly member assessments were as follows:

	<u>2020</u>	<u>2019</u>
Designated for operations	\$ 825	\$ 745
Designated for the reserve fund	125	150
	<u>\$ 950</u>	<u>\$ 895</u>

(12) REVENUES AND COST OF REVENUES:

Revenues includes all department related revenue from both members and nonmembers. Cost of revenues includes direct expenses. Revenues and cost of revenues for major departments consist of the following:

	<u>2020</u>	<u>2019</u>
Golf operations:		
Revenues - merchandise sales	\$ 592,250	\$ 518,283
Revenues - tournament fees	65,078	356,605
Revenues - guest fees	342,406	298,390
Revenues - golf cart rental	701,797	434,118
Revenues - miscellaneous	56,161	55,639
Total revenues	<u>1,757,692</u>	<u>1,663,035</u>
Cost of revenues - merchandise	483,119	444,523
Cost of revenues - tournaments	111,686	389,109
Cost of revenues - golf carts	245,981	195,002
Cost of revenues - payroll	1,065,263	919,833
Cost of revenues - miscellaneous	327,518	300,742
Total cost of revenues	<u>2,233,567</u>	<u>2,249,209</u>
Golf operations, net	<u>\$ (475,875)</u>	<u>\$ (586,174)</u>



(12) REVENUES AND COST OF REVENUES (Continued):

	<u>2020</u>	<u>2019</u>
Food and beverage:		
Revenues - food	\$ 873,704	\$ 990,714
Revenues - beverage	465,344	594,777
Revenues - catering and events	<u>285,348</u>	<u>393,729</u>
Total revenues	<u>1,624,396</u>	<u>1,979,220</u>
Cost of revenues - food and beverage	650,776	673,319
Cost of revenues - payroll	2,572,318	1,862,501
Cost of revenues - supplies	178,926	190,025
Cost of revenues - miscellaneous	<u>418,780</u>	<u>419,688</u>
Total cost of revenues	<u>3,820,800</u>	<u>3,145,533</u>
Food and beverage, net	<u>\$ (2,196,404)</u>	<u>\$ (1,166,313)</u>

(13) OTHER INCOME (EXPENSE):

Other income (expense), net consisted of the following for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Loss on disposal of property and equipment, net	\$ (385,008)	\$ (18,220)
Sales center lease income	256,435	149,626
Real estate taxes	(84,391)	(104,974)
Investment income, net	36,870	211,874
Interest expense	<u>(22,775)</u>	<u>(3,661)</u>
	<u>\$ (198,869)</u>	<u>\$ 234,645</u>

(14) INCOME TAXES:

The Association is qualified as an exempt corporation under the provisions of the Internal Revenue Code Section 501(c)(7). However, as a result of the provisions of the Tax Reform Act of 1969, the Association is taxed on all net income from non-membership activities, including investment income, reduced only by losses from non-membership activities for which a profit motive exists. The Association can make certain elections for income tax purposes, which may defer the payment of income taxes. These elections include the designation of a portion of the annual dues as available only for capital expenditures and a one-year deferral of excess membership revenue. In certain years, the Association may qualify to file as a homeowner association, wherein net income from exempt activities is not subject to income taxes. Exempt revenue is revenue received from members that is not based on specific usage or goods or services received. Member assessments are exempt revenue. Non-exempt revenue includes all other revenues, such as golf and food and beverage operations.

(14) INCOME TAXES (Continued):

Management believes the tax positions taken on the Association's tax returns are fairly stated. With few exceptions, the Association is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2016.

The Association had operating losses for income tax purposes in prior years because tax deductible expenses exceeded taxable assessments and revenues during those years. Losses can generally be carried forward for twenty years. Beginning in 2018, Federal losses can be carried forward indefinitely. As of December 31, 2020, the Association had approximately \$14,600,000 and \$5,200,000, respectively, of available net operating losses to offset against future Federal and State taxable income.

(15) OPERATING LEASES:

The Association leases its golf carts, golfer GPS units, and utility and shuttle carts under noncancelable operating leases. Total lease expense was \$245,981 and \$195,002 for 2020 and 2019, respectively. Future minimum lease payments under these operating leases are as follows:

Year ending December 31,	
2021	\$ 205,824
2022	205,824
2023	205,824
2024	205,824
Total	<u>\$ 823,296</u>

The Association is the lessor under an operating lease, which covers the sales center at Forest Highlands. The lease was renewed effective January 1, 2018 for a term of four years with base rent of \$94,500 per year and increases based on the consumer price index. The lease includes additional variable rent equal to 0.25% of annual gross home sales above \$20,000,000. Total lease income was \$256,435 and \$149,626 for 2020 and 2019, respectively. Future minimum lease payments to be received under this operating lease are \$99,666 for 2021.

(16) RETIREMENT PLAN AND TRUST:

The Association has a profit-sharing plan (the Plan) under Section 401 and 401(k) of the Internal Revenue Code. The Plan provides for retirement, disability, and accidental benefits for eligible employees. The Association matches employee contributions at a rate of 100% of the first 3% of employee contributions and 50% on the next 2% of employee contributions. The Plan also provides for additional contributions by the employer at the Board of Directors' discretion. As of December 31, 2020 and 2019, the Association's liability to the Plan for employee and matching contributions was \$12,473 and \$12,031, respectively. The Association's matching contributions to the Plan totaled \$102,028 and \$101,214 in 2020 and 2019, respectively.

(17) CONCENTRATIONS:

Financial instruments that potentially subject the Association to significant concentrations of credit risk consist principally of member receivables. Management believes the current allowance for uncollectible accounts is adequate to reduce the member receivables to net realizable value.

The Association's cash and cash equivalent balances in financial institutions exceed federally insured limits in the normal course of business. At December 31, 2020, the Association had approximately \$5,708,000 of deposits in excess of federally insured limits.

(18) FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Association classifies its investments into three levels. Level 1 refers to securities traded in an active market. Level 2 refers to securities not traded in an active market but for which observable market inputs are readily available, or Level 1 securities where there is a contractual restriction. Level 3 refers to securities not traded in an active market and for which no significant observable market inputs are available.

The Association's portfolio investments were classified as follows, based on fair values:

<u>December 31, 2020</u>				
<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	\$ 2,622,390	\$ 2,622,390	\$ -	\$ -
Money market funds	2,145,399	2,145,399		
Bonds	4,897,601	-	4,897,601	-
Bond funds	737,963	737,963	-	-
Equity funds	262,940	262,940	-	-
Total	<u>\$ 10,666,293</u>	<u>\$ 5,768,692</u>	<u>\$ 4,897,601</u>	<u>\$ -</u>

<u>December 31, 2019</u>				
<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	\$ 2,124,492	\$ 2,124,492	\$ -	\$ -
Money market funds	548,739	548,739		
Bonds	4,866,512	-	4,866,512	-
Bond funds	943,877	943,877	-	-
Equity funds	207,918	207,918	-	-
Total	<u>\$ 8,691,538</u>	<u>\$ 3,825,026</u>	<u>\$ 4,866,512</u>	<u>\$ -</u>

(19) SUBSEQUENT EVENTS:

Management has evaluated all subsequent events through the date the financial statements were available to be issued on March 8, 2021. No subsequent events occurred during this period which require adjustment to or disclosure in the financial statements.

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS (Unaudited)  
DECEMBER 31, 2020

In January 2021, Advanced Reserve Solutions, Inc., an independent reserve analyst, completed a reserve study analysis to estimate the remaining useful lives and the replacement costs of the components of common property. The Association's governing documents require that funds be accumulated for future repairs and replacements. Accumulated funds are held in separate accounts and are not available for operating purposes.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the Reserve Fund. The study assumed an inflation rate of 2.45% and an investment yield of 0.00%. Actual expenditures, however, will vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the Reserve Fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to member approval, to increase regular assessments above the state statute limit or levy special assessments. The Association may also delay major repairs and replacements until funds are available.

The following schedule sets forth the projected annual expenditures which will be required to maintain the property and equipment in its present condition, as reported in the January 2021 study.

*See accompanying independent auditors' report*

THE FOREST HIGHLANDS ASSOCIATION AND SUBSIDIARIES  
SUPPLEMENTARY INFORMATION ON  
FUTURE MAJOR REPAIRS AND REPLACEMENTS (Unaudited) (Continued)  
DECEMBER 31, 2020

COMPONENTS:	GOLF COURSE	RECREATION	STREETS	CLUBHOUSE	WATER COMPANY	WASTEWATER COMPANY	OPERATIONS	TOTAL
<u>YEAR</u>								
2021	\$ 308,800	\$ 431,500	\$ 500,000	\$ 550,250	\$ 98,350	\$ 165,000	\$ 853,243	\$ 2,907,143
2022	336,036	150,602	503,278	223,290	991,716	88,619	492,887	2,786,428
2023	524,800	39,780	-	189,768	99,187	144,320	542,024	1,539,879
2024	451,417	122,586	350,000	70,433	64,519	270,334	206,945	1,536,234
2025	443,418	34,041	350,000	49,575	150,928	107,963	1,009,561	2,145,486
2026	588,930	215,572	112,865	1,266,403	135,833	72,234	650,725	3,042,562
2027	260,168	136,097	115,630	406,874	1,099,644	42,783	4,038,622	6,099,818
2028	218,446	173,904	118,463	541,259	124,386	278,093	195,109	1,649,660
2029	471,505	164,450	121,366	239,394	74,033	59,469	5,175,334	6,305,551
2030	172,831	463,785	124,339	1,060,923	174,075	61,548	442,150	2,499,651
2031	363,431	385,341	48,406	810,095	125,284	403,812	434,383	2,570,752
2032	628,127	268,060	130,506	611,357	1,251,556	232,954	2,806,930	5,929,490
2033	414,482	346,828	133,704	304,911	126,350	129,693	171,608	1,627,576
2034	365,735	132,185	-	328,922	199,990	117,460	2,199,206	3,343,498
2035	469,282	148,756	140,335	151,913	192,260	413,990	496,155	2,012,691
2036	404,435	411,912	5,175,853	1,872,437	173,032	184,605	329,745	8,552,019
2037	288,700	105,317	147,296	279,936	1,400,786	54,500	205,037	2,481,572
2038	810,208	137,323	158,450	360,135	130,533	88,279	931,839	2,616,767
2039	567,390	568,008	154,602	197,118	74,209	117,498	1,305,614	2,984,439
2040	508,115	313,612	158,390	416,090	221,746	325,887	900,049	2,843,889
2041	664,173	279,105	162,270	591,824	159,593	222,716	2,941,963	5,021,644
2042	379,872	78,468	166,246	684,435	1,609,261	123,022	644,536	3,685,840
2043	456,455	84,989	170,319	418,133	160,951	295,078	170,235	1,756,160
2044	1,224,933	150,935	174,492	243,503	136,104	587,601	637,419	3,154,987
2045	283,346	46,479	178,767	248,486	244,911	1,282,652	910,281	3,194,922
2046	526,180	800,168	183,147	2,674,674	220,417	114,467	1,411,145	5,930,198
2047	562,901	318,039	187,634	576,036	1,784,397	120,086	313,724	3,862,817
2048	271,430	600,337	192,231	632,103	279,696	264,606	201,841	2,442,244
2049	603,623	375,172	196,940	424,899	271,778	116,195	6,636,401	8,625,008
2050	814,931	373,266	201,766	1,354,754	282,472	345,019	711,728	4,083,936
	<u>\$ 14,384,100</u>	<u>\$ 7,856,617</u>	<u>\$ 10,357,295</u>	<u>\$ 17,779,930</u>	<u>\$ 12,057,997</u>	<u>\$ 6,830,483</u>	<u>\$ 37,966,439</u>	
Grand Total								<u>\$ 107,232,861</u>

See accompanying independent auditors' report