

PORCH & ASSOCIATES LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

High Desert Residential Owners' Association, Inc.

Financial Statements, Supplementary Information
and
Independent Auditor's Report

June 30, 2021
with
Summarized Comparative Information for June 30, 2020

High Desert Residential Owners' Association, Inc.

Table of Contents

Independent Auditor's Report.....	1
Financial Statements	
Balance Sheets	4
Statements of Revenues, Expenses, and Changes in Fund Balances	5
Statements of Cash Flows	6
Notes to Financial Statements.....	7
Supplementary Information	
Combining Schedule of Revenues, Expenses and Changes in Fund Balances – Village Operating Funds	15
Supplementary Information on Future Major Repairs and Replacements (Compiled).....	16

Independent Auditor's Report

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of High Desert Residential Owners' Association, Inc. which comprise the balance sheet as of June 30, 2021, and the related statements of revenues, expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management (for this report Management is defined as those charged with governance, which is the Board of Directors and not the management company) is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of High Desert Residential Owners' Association, Inc. as of June 30, 2021, 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.

We have previously audited High Desert Residential Owners' Association, Inc.'s June 30, 2020 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated November 24, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of a Matter

For this report, and the remainder of the financial statements, Management is defined as those charged with governance, which is the Board of Directors and not the management company.

Emphasis of Matter

Our audit was 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 4 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Combining Schedule of Revenues, Expenses and Changes in Fund Balances – Village Operating Funds is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Board of Directors
High Desert Residential Owners' Association, Inc.
Albuquerque, New Mexico

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 common property 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 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.

Porch & Associates LLC

Albuquerque, New Mexico
August 18, 2021

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.

BALANCE SHEETS

June 30, 2021, with Summarized Comparative

Financial Information for June 30, 2020

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2021	Total 2020
ASSETS													
Cash and cash equivalents, undesignated	\$ 831,019	-	-	-	-	-	-	-	-	-	-	831,019	750,092
Cash and cash equivalents, designated for future repairs and replacements	-	609,288	107,694	199,047	62,782	271,319	108,338	250,096	104,191	123,663	14,536	1,850,954	1,943,136
Assessments receivable	33,724	-	-	-	-	-	-	-	-	-	-	33,724	2,950
Accounts receivable, net	13,782	-	-	-	-	-	-	-	-	-	-	13,782	56,958
Prepaid expenses	13,531	-	-	-	-	-	-	-	-	-	-	13,531	6,665
Due from other funds	925	-	-	-	-	-	-	-	-	-	-	925	22,109
Interest receivable	-	634	3	208	17	-	31	-	24	-	-	917	3,842
Total assets	\$ 892,981	609,922	107,697	199,255	62,799	271,319	108,369	250,096	104,215	123,663	14,536	2,744,852	2,785,752
LIABILITIES AND FUND BALANCES													
LIABILITIES													
Accounts payable and accrued expenses	\$ 105,242	17,314	-	-	-	-	-	-	-	-	-	122,556	78,016
Assessments received in advance	155,247	-	-	-	-	-	-	-	-	-	-	155,247	61,218
Taxes payable	2,413	-	-	-	-	-	-	-	-	-	-	2,413	6,900
Other liabilities	597	-	-	-	-	-	-	-	-	-	-	597	459
Due to other funds	925	-	-	-	-	-	-	-	-	-	-	925	22,109
Construction deposit payable	20,842	-	-	-	-	-	-	-	-	-	-	20,842	17,145
Total liabilities	285,266	17,314	-	-	-	-	-	-	-	-	-	302,580	185,847
FUND BALANCES													
Unreserved, undesignated	607,715	-	-	-	-	-	-	-	-	-	-	607,715	653,085
Unreserved, designated for:													
Future replacements and repairs	-	592,608	-	199,255	62,799	271,319	108,369	250,096	104,215	123,663	14,536	1,726,860	1,839,187
Arroyo flood control	-	-	107,697	-	-	-	-	-	-	-	-	107,697	107,633
Total fund balances	607,715	592,608	107,697	199,255	62,799	271,319	108,369	250,096	104,215	123,663	14,536	2,442,272	2,599,905
Total liabilities and fund balances	\$ 892,981	609,922	107,697	199,255	62,799	271,319	108,369	250,096	104,215	123,663	14,536	2,744,852	2,785,752

The accompanying notes are a integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2021, with Summarized Comparative Financial
Information for the Year Ended June 30, 2020

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2021	Total 2020
Revenues													
Assessments	\$ 1,301,084	76,610	-	7,500	7,000	41,367	10,200	15,288	3,700	8,739	5,460	1,476,948	1,466,875
Cost sharing	82,678	-	-	-	-	-	-	-	-	-	-	82,678	78,741
Other:													
Developer subsidy	-	-	-	-	-	-	-	-	-	-	-	-	2,814
Other income	6,814	-	-	-	-	-	-	-	-	-	-	6,814	47,854
Interest charges	(2)	-	-	-	-	-	-	-	-	-	-	(2)	2,431
Late fees and fines	-	-	-	-	-	-	-	-	-	-	-	-	4,000
Interest income	3,063	7,723	310	1,128	92	1,914	311	2,208	239	892	1	17,881	41,579
Unrealized gain (loss)	(2,628)	(6,913)	(246)	(866)	(65)	(1,710)	(241)	(2,027)	(189)	(792)	-	(15,677)	12,837
Total revenues	1,391,009	77,420	64	7,762	7,027	41,571	10,270	15,469	3,750	8,839	5,461	1,568,642	1,657,131
Expenses													
Landscape	403,836	-	-	-	-	-	-	-	-	-	-	403,836	507,007
Security services	252,822	-	-	-	-	-	-	-	-	-	-	252,822	236,285
Repairs and maintenance	240,612	-	-	-	-	-	-	-	-	-	-	240,612	141,537
Association management fees	143,922	-	-	-	-	-	-	-	-	-	-	143,922	141,101
Professional services	124,465	-	-	-	-	-	-	-	-	-	-	124,465	175,268
Utilities	103,898	-	-	-	-	-	-	-	-	-	-	103,898	103,192
Administrative assistant	78,105	-	-	-	-	-	-	-	-	-	-	78,105	60,847
Other	48,673	-	-	-	-	-	-	-	-	-	-	48,673	57,928
Insurance	27,538	-	-	-	-	-	-	-	-	-	-	27,538	23,461
Pool	20,482	-	-	-	-	-	-	-	-	-	-	20,482	24,850
Taxes	2,038	-	-	-	-	-	-	-	-	-	-	2,038	12,913
Reserve	-	190,914	-	5,345	-	32,147	25,770	25,123	264	7,868	2,465	289,896	55,479
Allowance for uncollectible accounts	(10,012)	-	-	-	-	-	-	-	-	-	-	(10,012)	1,114
Total expenses	1,436,379	190,914	-	5,345	-	32,147	25,770	25,123	264	7,868	2,465	1,726,275	1,540,982
Net change in fund balances	(45,370)	(113,494)	64	2,417	7,027	9,424	(15,500)	(9,654)	3,486	971	2,996	(157,633)	116,149
Fund balance, beginning of year	653,085	706,102	107,633	196,838	55,772	261,895	123,869	259,750	100,729	122,692	11,540	2,599,905	2,483,756
Fund balance, end of year	\$ 607,715	592,608	107,697	199,255	62,799	271,319	108,369	250,096	104,215	123,663	14,536	2,442,272	2,599,905

The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
Year Ended June 30, 2021, with Summarized Comparative Financial
Information for the Year Ended June 30, 2020

	Operating Funds	Master Reserve Fund	Arroyo Reserve Fund	Canyons Village Reserve Fund	Chaco Compound Village Reserve Fund	Desert Mountain Reserve Fund	Enclave Village Reserve Fund	Trillium Village Reserve Fund	Wilderness Compound Reserve Fund	Legends Village Reserve Fund	Wilderness Cañon Reserve Fund	Total 2021	Total 2020
Cash Flows From Operating Activities													
Net change in fund balances	\$ (45,370)	(113,494)	64	2,417	7,027	9,424	(15,500)	(9,654)	3,486	971	2,996	(157,633)	116,149
Adjustments to reconcile the net change in in fund balances to net cash provided (used) by operating activities:													
Allowance for uncollectible accounts	(10,012)	-	-	-	-	-	-	-	-	-	-	(10,012)	1,114
Changes in assets and liabilities:													
Assessments receivable	(30,774)	-	-	-	-	-	-	-	-	-	-	(30,774)	(2,350)
Accounts receivable	53,188	-	-	-	-	-	-	-	-	-	-	53,188	(19,858)
Prepaid expenses	(6,866)	-	-	-	-	-	-	-	-	-	-	(6,866)	1,847
Interest receivable	158	694	197	(29)	36	559	10	908	128	264	-	2,925	5,060
Accounts payable and accrued expenses	27,226	17,314	-	-	-	-	-	-	-	-	-	44,540	6,536
Assessments received in advance	94,029	-	-	-	-	-	-	-	-	-	-	94,029	(94,975)
Taxes payable	(4,487)	-	-	-	-	-	-	-	-	-	-	(4,487)	404
Other liabilities	138	-	-	-	-	-	-	-	-	-	-	138	459
Construction deposit payable	3,697	-	-	-	-	-	-	-	-	-	-	3,697	(24,575)
Net cash provided (used) by operating activities	80,927	(95,486)	261	2,388	7,063	9,983	(15,490)	(8,746)	3,614	1,235	2,996	(11,255)	(10,189)
Net change in cash and cash equivalents	80,927	(95,486)	261	2,388	7,063	9,983	(15,490)	(8,746)	3,614	1,235	2,996	(11,255)	(10,189)
Cash and cash equivalents:													
Beginning of year	750,092	704,774	107,433	196,659	55,719	261,336	123,828	258,842	100,577	122,428	11,540	2,693,228	2,703,417
End of year	\$ 831,019	609,288	107,694	199,047	62,782	271,319	108,338	250,096	104,191	123,663	14,536	2,681,973	2,693,228
Supplemental Disclosures of Cash Flow Information													
Cash payments for income taxes	\$ 4,620	-	-	-	-	-	-	-	-	-	-	4,620	11,357

The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 1. BACKGROUND INFORMATION

High Desert Residential Owners Association, Inc. (Association) is the governing body for High Desert, which is a master planned community, consisting of approximately 1,000 acres which, at full development, will have approximately 1,623 dwelling units. It is located in the city of Albuquerque, New Mexico. The Association was incorporated on October 12, 1993, in the state of New Mexico. The Association is responsible for the operation and maintenance of common property within the development. All of the residential property in the Association is subject to the Declaration of Covenants, Conditions, and Restrictions for High Desert Residential Properties (Declarations).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in the understanding the Association's financial statements. The financial statements and notes are the representations of the Association's management who is responsible for their integrity and objectivity.

The Financial Accounting Standards Board (FASB) has issued the Accounting Standards Codification (ASC or the Codification) as the source of authoritative accounting principles recognized by the FASB to be used by nongovernmental entities when preparing financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Codification essentially reduces the GAAP hierarchy to two levels: authoritative and non-authoritative, with the Codification being authoritative GAAP.

The significant accounting policies followed are:

Fund Accounting. The Association's governing documents provide certain guidelines governing its financial activities. In order to ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. 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 general operations of the Association.

Reserve Funds – These funds are used to accumulate financial resources designated for future major repairs and replacements within High Desert, the Arroyo Reserve and the Gated Villages of Canyons, Chaco Compound, Desert Mountain, Enclave, Trillium, Wilderness Compound, Legends Village, and the Wilderness Cañon which are accounted for separately from the Operating Fund. Reserve funds are not co-mingled with operating funds.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summarized Comparative Information. The financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Association considers all currency on hand, demand deposits, money market, and certificate of deposits to be cash and cash equivalents.

Concentration of Credit Risk. The Association maintains its cash and cash equivalents in bank deposit accounts, money market accounts, and certificates of deposit. The Association's management company has obtained private deposit insurance in the amount of \$99,999,999.99 in order to protect balances in excess of FDIC insurance. Therefore, the Association did not have any balances in excess of FDIC or private insurance at June 30, 2021 and 2020, respectively.

The Association also maintains balances in money market investment accounts which are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. The Association did not have money market balances in excess of SIPC insurance at June 30, 2021 or 2020, respectively.

The Association also invests in certificates of deposits through a brokerage firm account. The brokerage firm has invested no more than \$250,000 in certificates of deposit at any individual bank. The intent is to ensure that all certificates of deposit are covered by FDIC insurance. The Association did not have certificate of deposit balances in excess of FDIC insurance at June 30, 2021 and 2020, respectively.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Member Assessments. In order for the Association to preserve and maintain the community, each owner of a residential unit is required to pay base assessments to the Association for the unit's pro rata share of the common expenses incurred by the Association for the general benefit of all units. Base assessments are levied annually, but at the discretion of the Association's board of directors, may be payable in semiannual, quarterly or monthly installments. In addition, the Association is authorized under certain circumstances to levy (a) special assessments for expenses which benefit only units within a particular village or villages, (b) special assessments for unbudgeted expenses or expenses in excess of budget, and (c) specific assessments, which may be levied on units which receive special benefits or services not provided to all units, or which may be levied against a particular unit or village to reimburse the Association for costs incurred in bringing the unit or the village into compliance with the provisions of the Declarations.

Base assessments are determined on the basis of a budget prepared annually and approved by the Association's Board of Directors covering the estimated costs of operating the Association during the coming year. Gated village assessments are determined on the basis of a separate budget prepared by the treasurer of the board and approved by the Association's Board of Directors covering the estimated gated village expenses to be incurred by the Association for each gated village. The budget process is the same for the Association and the gated villages. Special assessments may be levied only upon the approval of voting members (if a common expense) or owners (if a Village expense) representing at least 51% of the total votes allocated to units which will be subject to the special assessment. Specific assessments require no membership approval, but if levied to reimburse the Association for costs incurred in bringing a unit of a village into compliance, such assessments do require notice to the affected village or unit owner and an opportunity for a hearing.

The Association is authorized to levy assessments against nonresidential properties in High Desert for a portion of the expenses incurred or anticipated to be incurred by the Association in fulfilling its responsibilities and exercising its rights under the Declarations. The assessments for nonresidential properties are calculated in accordance with an agreement to share costs affecting each nonresidential parcel.

Although it is provided for in the Declarations, at this time the Association has chosen not to require the first owner of record to a unit to make a working capital contribution to the Association, which would otherwise be equal to 1/6th of the annual base assessment per unit for that year.

The obligation to pay assessments commences as to each unit on the first day of the first month following the date on which the unit is made subject to the Declaration. All assessments are the personal obligation of the owner of the unit and also constitute a lien against the unit prior and superior to all other liens except the lien of a first mortgage and taxes. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Receivable, net. The Association had assessments receivable of \$33,724 and \$29,379 as of June 30, 2021 and 2020, respectively. Management has established an allowance for doubtful accounts of \$0 and \$26,429 during the year ending June 30, 2021 and 2020, respectively.

Management reviews the collectability of its receivables regularly and, when appropriate, records an estimate for uncollectible accounts. The basis for the estimate is the total of accounts in foreclosure and bankruptcy. When an account is determined to be uncollectible by the board of directors, it is charged off against the estimate.

Accounts Receivable. Accounts receivable consists of late fees, interest on late assessments, return item fees, liens, attorney fees owned by homeowners, gate remotes fees, violation fines, and rental policy violation fines. The Association had accounts receivable of \$13,782 and \$84,958 as of June 30, 2021 and 2020, respectively. Management has established an allowance for doubtful accounts of \$0 and \$28,000 as of June 30, 2021 and 2020, respectively.

Income Taxes. Homeowners' associations may elect to be taxed as regular corporations, subject to the provisions of Internal Revenue Code (IRC) Section 277, or as homeowners' association subject to IRC Section 528. The Association has elected to be taxed as a homeowners' association under IRC 528. Under that election, net income arising from defined exempt function activities is not taxed; however, federal income tax is assessed on income derived from nonexempt function activities at a rate of 30%. Exempt function income basically consists of amounts received from Association members solely as a function of their membership in the Association. Non-exempt function income results primarily from revenue from nonmembers and investment income.

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in taxes recognized in financial statements. These standards require recognition and measurement of uncertain income tax positions using a "more likely than not" approach. The Association evaluates its uncertain tax positions, and a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Association classifies interest and penalties with respect to material uncertain tax positions recognized in the financial statements (when applicable) as interest expense and as an operating expense, respectively. The Association has assessed its tax positions for all open tax years (2018 through 2020) and has concluded that there are currently no significant liabilities to be recognized.

Cost Sharing. The Association has an agreement with Alliance Residential, LLC, a non-residential owner of an apartment complex located within the Associations boundaries, to share expenses of the common areas.

Revenue Recognition. The Association follows ASC Topic 606, *Revenue from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred by the Association in an amount that reflects the consideration to which the Association expects to be entitled to in exchange for the goods or services.

The Association adopted Topic 606 as of July 1, 2020, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association has reviewed its revenue recognition policies and has determined that Topic 606 does not change the Association's revenue recognition. As a result, there are no changes to opening fund balances.

The Association recognizes revenue as follows:

Assessments and Charges to Homeowners. Topic 606 allows similar contracts to be treated the same. Therefore, revenue recognition will be the same for all homeowners. It is not necessary to evaluate each homeowner's contract. This applies to all standardized revenues such as assessments, late fees, fines, other fees and charges. Assessments are recognized as revenues ratably over the period covered by the assessments. This includes assessments allocated to reserve funds. Other charges are recognized as revenues when imposed on the homeowner.

Interest Income. Operating and reserve funds have individual interest-bearing deposit accounts and money market funds. Interest income associated with the accounts is reported in the respective funds. Interest income is recognized as revenue when earned.

All Other Income. All other revenues are recognized when the goods or services are provided.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment, Common Areas. Generally Accepted Accounting Principles specific to Common Interest Realty Associations required common area property and equipment to be capitalized if the Association has title to the assets and (1) the Association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the association retaining the proceeds, or (2) the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers. Management has determined that the Association does not meet the test for capitalizing property and equipment.

NOTE 3. ECONOMIC DEPENDENCY

Approximately 94% and 89% of the Association's revenue for the years ended June 30, 2021 and 2020, respectively, were derived from member assessments and developer subsidies.

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements which include, but are not limited to, street replacement and repairs in certain villages (solely the obligation of the village residents) and maintenance of the development's arroyo systems. Accumulated funds are held in separate accounts and are not available for operating purposes.

The funding program is based on a reserve study performed by an independent firm that estimates the remaining useful life and replacement costs of the common property components.

Reserve studies were completed on the Master development and were performed for the Canyons, Chaco Compound, Desert Mountain, Enclave, Trillium, Wilderness Compound, Legends, and Wilderness Cañon Villages to estimate the remaining useful lives and replacement costs of the common property components in each gated village. Additional assessments are billed to village residents on a quarterly basis. The estimates are obtained from the study by the independent firm.

Because of drainage easements, the Association is required by the Albuquerque Metropolitan Arroyo Flood Control Authority (AMAFCA) to establish a contingency reserve dedicated solely to extraordinary drainage maintenance and repair for certain arroyos in the High Desert. The Association has funded the arroyo contingency reserve in the amount of \$107,694 as required in accordance with the agreement with AMAFCA.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

The Association designated \$175,864 and \$174,850 in reserve replacement funds and incurred \$289,896 and \$55,479 in reserve fund expenditures for the years ended June 30, 2021 and 2020, respectively. Accumulated reserve funds, which aggregate to \$1,850,954 and \$1,943,136 at June 30, 2021 and 2020, respectively, are held in separate accounts and generally 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 replacement fund. Actual expenditures for future repairs and replacements and contingency reserves may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement funds and contingency reserve may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 5: OPERATING LEASES

The association rents its office space. Under the lease agreement, the monthly rent payment is \$778 for four years commencing on July 1, 2020 and ending June 30, 2023. Rent expense for the years ended June 30, 2021 and 2020 was \$9,332 and \$9,332, respectively.

Minimum future lease payments in the aggregate and for each of the next three years were as follows as of June 30, 2021:

Year Ending June 30	
2022	\$ 9,332
2023	9,332
	<u>\$ 18,664</u>

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 (with comparative information for June 30, 2020)

NOTE 6: DUE TO AND DUE FROM BALANCES

The main operating fund will make the tax payment for the June 30, 2021 tax year on behalf of all funds. The tax payments have not been reimbursed to the main operating fund as of June 30, 2021.

The components of due to and due from balances as of June 30, 2021 are as follows:

Fund	Due From	Due To	Reason
Operating - Main	925	-	Taxes paid by the main operating account
Canyons Village - Operating	-	154	Taxes paid by the main operating account
Chaco Compound Village Operating	-	13	Taxes paid by the main operating account
Desert Mountain - Operating	-	261	Taxes paid by the main operating account
Enclave Village - Operating	-	43	Taxes paid by the main operating account
Trillium Village - Operating	-	301	Taxes paid by the main operating account
Wilderness Compound - Operating	-	33	Taxes paid by the main operating account
Legends Village - Operating	-	120	Taxes paid by the main operating account
	<u>\$ 925</u>	<u>925</u>	

NOTE 7. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through August 18, 2021 which is the date the financial statements are available to be issued. Subsequent to year-end, the United States and global economies experienced significant changes resulting from uncertainty caused by the world-wide coronavirus pandemic. The effects of the pandemic on the future financial results of the Association are unknown.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES - VILLAGE OPERATING FUNDS
Year Ended June 30, 2021, with Summarized Comparative Financial
Information for the Year Ended June 30, 2020

	Master Operating Fund	Canyons Village Operating Fund	Chaco Compound Village Operating Fund	Desert Mountain Operating Fund	Enclave Village Operating Fund	Trillium Village Operating Fund	Wilderness Compound Operating Fund	Legends Village Operating Fund	Wilderness Cañon Operating Fund	Total 2021	Total 2020
Revenues											
Assessments	\$ 1,091,950	22,140	5,144	77,433	19,104	35,688	12,836	26,973	9,816	1,301,084	1,292,025
Cost sharing	82,678	-	-	-	-	-	-	-	-	82,678	78,741
Other:											
Developer subsidy	-	-	-	-	-	-	-	-	-	-	2,814
Other income	(143)	-	6,872	85	-	-	-	-	-	6,814	47,854
Interest charges	(2)	-	-	-	-	-	-	-	-	(2)	2,431
Late fees and fines	-	-	-	-	-	-	-	-	-	-	4,000
Interest income	2,992	13	5	19	5	19	6	2	2	3,063	5,855
Unrealized Gain/(Loss)	(2,628)	-	-	-	-	-	-	-	-	(2,628)	2,128
Total revenues	1,174,847	22,153	12,021	77,537	19,109	35,707	12,842	26,975	9,818	1,391,009	1,435,848
Expenses											
Landscape	400,647	(1,864)	411	3,072	5,597	(7,679)	(3,016)	6,393	275	403,836	507,007
Security services	251,363	258	-	949	-	252	-	-	-	252,822	236,285
Repairs and maintenance	172,794	2,856	3,941	26,951	6,464	17,294	2,391	4,550	3,371	240,612	141,537
Association management fees	143,922	-	-	-	-	-	-	-	-	143,922	141,101
Professional services	124,465	-	-	-	-	-	-	-	-	124,465	175,268
Utilities	66,891	2,861	1,583	16,913	2,706	7,086	1,612	3,738	508	103,898	103,192
Administrative assistant	78,105	-	-	-	-	-	-	-	-	78,105	60,847
Other	47,076	-	-	1,597	-	-	-	-	-	48,673	57,928
Insurance	18,370	1,061	374	3,077	1,079	1,931	456	815	375	27,538	23,461
Pool	-	-	-	20,482	-	-	-	-	-	20,482	24,850
Taxes	1,113	154	13	261	43	301	33	120	-	2,038	12,913
Allowance for uncollectible accounts	(10,012)	-	-	-	-	-	-	-	-	(10,012)	1,114
Total expenses	1,294,734	5,326	6,322	73,302	15,889	19,185	1,476	15,616	4,529	1,436,379	1,485,503
Net change in fund balances	(119,887)	16,827	5,699	4,235	3,220	16,522	11,366	11,359	5,289	(45,370)	(49,655)
Fund balance, beginning of year	532,503	21,096	(360)	37,448	9,665	42,032	12,806	(1,310)	(795)	653,085	702,740
Fund balance, end of year	\$ 412,616	37,923	5,339	41,683	12,885	58,554	24,172	10,049	4,494	607,715	653,085

See the Independent Auditor's Report
The accompanying notes are an integral part of these financial statements.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (Compiled)
June 30, 2021

An independent firm conducted a reserve study issued during April of 2021 to estimate the remaining useful life and replacement costs of the components of common property for the Master, Canyons Village, Chaco Compound Village, Desert Mountain Village, Enclave Village, Trillium Village, Wilderness Compound, the Legends Village and Wilderness Cañon. Replacement costs for a thirty-year period were based on the estimated costs to repair or replace the common property components at the date of the study assuming an annual inflation rate of 2.5 percent. Reserve funds were estimated to earn 0.20% interest.

The following information is based on the study and presents significant information about the components of common property to be replaced within the next thirty years.

	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Master Reserve	0 - 30	\$ 4,325,810
Canyon Village	0 - 30	710,607
Chaco Compound Village	0 - 30	350,985
Desert Mountain Village	0 - 30	1,772,148
Enclave Village	0 - 30	606,942
Trillium Village	0 - 30	998,875
Wilderness Compound Village	0 - 30	427,293
Legends Village	0 - 30	671,355
Wilderness Cañon Village	0 - 30	355,799
Total required reserve for repairs and replacements		<u>\$ 10,219,814</u>

See the Independent Auditor's Report.
The accompanying notes are an integral part of these financial statements.