

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, 2022
with
Summarized Comparative Information for June 30, 2021

High Desert Residential Owners' Association, Inc.

Table of Contents

| | |
|--|----|
| Independent Auditor's Report..... | 1 |
| Financial Statements | |
| Balance Sheets | 5 |
| Statements of Revenues, Expenses, and Changes in Fund Balances | 6 |
| Statements of Cash Flows | 7 |
| Notes to Financial Statements..... | 8 |
| 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

Opinion

We have audited the accompanying financial statements of High Desert Residential Owners' Association, Inc. (Association) which comprise the balance sheets as of June 30, 2022, 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.

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, 2022, 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 the Association's June 30, 2021 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated August 18, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 the Association 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 (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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 the Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

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

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.

Emphasis of a Matter

The Association's Board of Directors is ultimately responsible for all aspects of the association's governance. To this end, the Board of Directors employs a professional management company for (among other things) preparation of the financial information upon which this report is based, and relies upon the good faith and professional competence of the management company for these financial details. Nevertheless, for this report, and the remainder of the financial statements, Management is defined as the Association's Board of Directors.

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

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
January 12, 2023

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.

BALANCE SHEETS

June 30, 2022, with Summarized Comparative

Financial Information for June 30, 2021

| | 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 2022 | Total 2021 |
|--|--------------------|---------------------------|---------------------------|---------------------------------------|---|---------------------------------------|---------------------------------------|--|---|---------------------------------------|--|-----------------------|------------------|
| ASSETS | | | | | | | | | | | | | |
| Cash and cash equivalents, undesignated | \$ 658,028 | - | - | - | - | - | - | - | - | - | - | 658,028 | 831,019 |
| Cash and cash equivalents, designated for future repairs and replacements | - | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 1,307,081 | 1,850,954 |
| Assessments receivable | 15,867 | - | - | - | - | - | - | - | - | - | - | 15,867 | 33,724 |
| Accounts receivable, net | 6,268 | - | - | - | - | - | - | - | - | - | - | 6,268 | 13,782 |
| Prepaid expenses | 31,565 | - | - | - | - | - | - | - | - | - | - | 31,565 | 13,531 |
| Due from other funds | - | - | - | - | - | - | - | - | - | - | - | - | 925 |
| Interest receivable | - | - | - | - | - | - | - | - | - | - | - | - | 917 |
| Total assets | \$ 711,728 | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 2,018,809 | 2,744,852 |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | | | | |
| Accounts payable and accrued expenses | \$ 185,465 | - | - | - | - | - | - | - | - | - | - | 185,465 | 122,556 |
| Assessments received in advance | 157,468 | - | - | - | - | - | - | - | - | - | - | 157,468 | 155,247 |
| Taxes payable | - | - | - | - | - | - | - | - | - | - | - | - | 2,413 |
| Other liabilities | 597 | - | - | - | - | - | - | - | - | - | - | 597 | 597 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - | - | - | 925 |
| Construction deposit payable | 41,491 | - | - | - | - | - | - | - | - | - | - | 41,491 | 20,842 |
| Total liabilities | 385,021 | - | - | - | - | - | - | - | - | - | - | 385,021 | 302,580 |
| FUND BALANCES | | | | | | | | | | | | | |
| Unreserved, undesignated | 326,707 | - | - | - | - | - | - | - | - | - | - | 326,707 | 607,715 |
| Unreserved, designated for: | | | | | | | | | | | | | |
| Future replacements and repairs | - | 198,391 | - | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 1,199,262 | 1,726,860 |
| Arroyo flood control | - | - | 107,819 | - | - | - | - | - | - | - | - | 107,819 | 107,697 |
| Total fund balances | 326,707 | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 1,633,788 | 2,442,272 |
| Total liabilities and fund balances | \$ 711,728 | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 2,018,809 | 2,744,852 |

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, 2022, with Summarized Comparative Financial
Information for the Year Ended June 30, 2021

| | 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 2022 | Total 2021 |
|--------------------------------------|--------------------|---------------------------|---------------------------|---------------------------------------|---|---------------------------------------|---------------------------------------|--|---|---------------------------------------|--|-----------------------|------------------|
| Revenues | | | | | | | | | | | | | |
| Assessments | \$ 1,048,170 | 330,000 | - | 7,000 | 7,500 | 45,000 | 8,000 | 15,000 | 3,000 | 7,000 | 5,000 | 1,475,670 | 1,476,948 |
| Cost sharing | 86,812 | - | - | - | - | - | - | - | - | - | - | 86,812 | 82,678 |
| Other: | | | | | | | | | | | | | |
| Other income | 1,579 | - | - | - | - | - | - | 14,941 | - | - | - | 16,520 | 6,814 |
| Interest charges | 2,011 | - | - | - | - | - | - | - | - | - | - | 2,011 | (2) |
| Late fees and fines | 2,406 | - | - | - | - | - | - | - | - | - | - | 2,406 | - |
| Interest income | 236 | 1,539 | 122 | 492 | 127 | 280 | 82 | 227 | 116 | 139 | 13 | 3,373 | 17,881 |
| Unrealized gain (loss) | - | (1,239) | - | (273) | - | - | - | - | - | - | - | (1,512) | (15,677) |
| Total revenues | 1,141,214 | 330,300 | 122 | 7,219 | 7,627 | 45,280 | 8,082 | 30,168 | 3,116 | 7,139 | 5,013 | 1,585,280 | 1,568,642 |
| Expenses | | | | | | | | | | | | | |
| Landscape | 615,695 | - | - | - | - | - | - | - | - | - | - | 615,695 | 403,836 |
| Security services | 223,671 | - | - | - | - | - | - | - | - | - | - | 223,671 | 252,822 |
| Association management fees | 146,796 | - | - | - | - | - | - | - | - | - | - | 146,796 | 143,922 |
| Utilities | 114,726 | - | - | - | - | - | - | - | - | - | - | 114,726 | 103,898 |
| Administrative assistant | 81,112 | - | - | - | - | - | - | - | - | - | - | 81,112 | 78,105 |
| Professional services | 64,494 | - | - | - | - | - | - | - | - | - | - | 64,494 | 124,465 |
| Other | 50,508 | 125 | - | - | - | - | 25 | - | - | - | - | 50,658 | 48,673 |
| Repairs and maintenance | 48,680 | - | - | - | - | - | - | - | - | - | - | 48,680 | 240,612 |
| Pool | 38,119 | - | - | - | - | - | - | - | - | - | - | 38,119 | 20,482 |
| Insurance | 30,312 | - | - | - | - | - | - | - | - | - | - | 30,312 | 27,538 |
| Allowance for uncollectible accounts | 7,993 | - | - | - | - | - | - | - | - | - | - | 7,993 | (10,012) |
| Taxes | 116 | - | - | - | - | - | - | - | - | - | - | 116 | 2,038 |
| Reserve | - | 724,392 | - | 7,717 | 1,215 | 71,262 | 70,502 | 87,425 | 1,184 | 5,969 | 1,726 | 971,392 | 289,896 |
| Total expenses | 1,422,222 | 724,517 | - | 7,717 | 1,215 | 71,262 | 70,527 | 87,425 | 1,184 | 5,969 | 1,726 | 2,393,764 | 1,726,275 |
| Net change in fund balances | (281,008) | (394,217) | 122 | (498) | 6,412 | (25,982) | (62,445) | (57,257) | 1,932 | 1,170 | 3,287 | (808,484) | (157,633) |
| Fund balance, beginning 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 |
| Fund balance, end of year | \$ 326,707 | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 1,633,788 | 2,442,272 |

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, 2022, with Summarized Comparative Financial
Information for the Year Ended June 30, 2021

| | 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 2022 | Total 2021 |
|--|--------------------|---------------------------|---------------------------|---------------------------------------|---|---------------------------------------|---------------------------------------|--|---|---------------------------------------|--|------------------|------------------|
| Cash Flows From Operating Activities | | | | | | | | | | | | | |
| Net change in fund balances | \$ (281,008) | (394,217) | 122 | (498) | 6,412 | (25,982) | (62,445) | (57,257) | 1,932 | 1,170 | 3,287 | (808,484) | (157,633) |
| Adjustments to reconcile the net change in in fund balances to net cash (used) provided by operating activities: | | | | | | | | | | | | | |
| Allowance for uncollectible accounts | 7,993 | - | - | - | - | - | - | - | - | - | - | 7,993 | (10,012) |
| Changes in assets and liabilities: | | | | | | | | | | | | | |
| Assessments receivable | 17,857 | - | - | - | - | - | - | - | - | - | - | 17,857 | (30,774) |
| Accounts receivable | (479) | - | - | - | - | - | - | - | - | - | - | (479) | 53,188 |
| Prepaid expenses | (18,034) | - | - | - | - | - | - | - | - | - | - | (18,034) | (6,866) |
| Interest receivable | - | 634 | 3 | 208 | 17 | - | 31 | - | 24 | - | - | 917 | 2,925 |
| Accounts payable and accrued expenses | 80,223 | (17,314) | - | - | - | - | - | - | - | - | - | 62,909 | 44,540 |
| Assessments received in advance | 2,221 | - | - | - | - | - | - | - | - | - | - | 2,221 | 94,029 |
| Taxes payable | (2,413) | - | - | - | - | - | - | - | - | - | - | (2,413) | (4,487) |
| Other liabilities | - | - | - | - | - | - | - | - | - | - | - | - | 138 |
| Construction deposit payable | 20,649 | - | - | - | - | - | - | - | - | - | - | 20,649 | 3,697 |
| Net cash (used) provided by operating activities | (172,991) | (410,897) | 125 | (290) | 6,429 | (25,982) | (62,414) | (57,257) | 1,956 | 1,170 | 3,287 | (716,864) | (11,255) |
| Net change in cash and cash equivalents | (172,991) | (410,897) | 125 | (290) | 6,429 | (25,982) | (62,414) | (57,257) | 1,956 | 1,170 | 3,287 | (716,864) | (11,255) |
| Cash and cash equivalents: | | | | | | | | | | | | | |
| Beginning 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 |
| End of year | \$ 658,028 | 198,391 | 107,819 | 198,757 | 69,211 | 245,337 | 45,924 | 192,839 | 106,147 | 124,833 | 17,823 | 1,965,109 | 2,681,973 |
| Supplemental Disclosures of Cash Flow Information | | | | | | | | | | | | | |
| Cash payments for income taxes | \$ 2,529 | - | - | - | - | - | - | - | - | - | - | 2,529 | 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, 2022 (with comparative information for June 30, 2021)

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, 2022 (with comparative information for June 30, 2021)

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, 2021, 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, 2022 and 2021, respectively.

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.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 (with comparative information for June 30, 2021)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Assessments Receivable, net. The Association had assessments receivable of \$15,867 and \$33,724 as of June 30, 2022 and 2021, respectively. Management has not established an allowance for doubtful accounts for the the years ending June 30, 2022 and 2021, 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.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 (with comparative information for June 30, 2021)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$6,268 and \$13,782 as of June 30, 2022 and 2021, respectively. Management has not established an allowance for doubtful accounts for the the years ending June 30, 2022 and 2021, 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.

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 (2019 through 2021) 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.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 (with comparative information for June 30, 2021)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 93% and 94% of the Association's revenue for the years ended June 30, 2022 and 2021, respectively, were derived from member assessments and developer subsidies.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 (with comparative information for June 30, 2021)

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. Amounts in excess of the initial \$107,694 relate to interest earned on the balance and belong to the Association.

The Association designated \$427,500 and \$175,864 in reserve replacement funds and incurred \$971,392 and \$289,896 in reserve fund expenditures for the years ended June 30, 2022 and 2021, respectively. Accumulated reserve funds, which total \$1,307,081 and \$1,850,954 at June 30, 2022 and 2021, 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.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 (with comparative information for June 30, 2021)

NOTE 5. 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 January 12, 2023 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, 2022, with Summarized Comparative Financial
Information for the Year Ended June 30, 2021

| | 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 2022 | Total 2021 |
|---|-----------------------------|---|---|---|---|--|---|---|--|-----------------------|-----------------------|
| Revenues | | | | | | | | | | | |
| Assessments | \$ 838,560 | 18,740 | 4,644 | 81,900 | 21,304 | 35,976 | 12,600 | 26,984 | 7,462 | 1,048,170 | 1,301,084 |
| Cost sharing | 86,812 | - | - | - | - | - | - | - | - | 86,812 | 82,678 |
| Other: | | | | | | | | | | | |
| Other income | 1,503 | - | - | 38 | - | - | - | 38 | - | 1,579 | 6,814 |
| Interest charges | 1,762 | 9 | 13 | 124 | 20 | 34 | 4 | 45 | - | 2,011 | (2) |
| Late fees and fines | 1,906 | - | - | 200 | 100 | - | - | 100 | 100 | 2,406 | - |
| Interest income | 155 | 14 | 4 | 13 | 6 | 27 | 9 | 5 | 3 | 236 | 3,063 |
| Unrealized Gain/(Loss) | - | - | - | - | - | - | - | - | - | - | (2,628) |
| Total revenues | 930,698 | 18,763 | 4,661 | 82,275 | 21,430 | 36,037 | 12,613 | 27,172 | 7,565 | 1,141,214 | 1,391,009 |
| Expenses | | | | | | | | | | | |
| Landscape | 566,396 | 5,218 | 1,128 | 9,178 | 4,971 | 11,189 | 4,262 | 10,809 | 2,544 | 615,695 | 403,836 |
| Security services | 222,010 | 647 | - | 635 | - | 379 | - | - | - | 223,671 | 252,822 |
| Association management fees | 146,796 | - | - | - | - | - | - | - | - | 146,796 | 143,922 |
| Administrative assistant | 81,112 | - | - | - | - | - | - | - | - | 81,112 | 78,105 |
| Utilities | 73,792 | 3,011 | 1,713 | 18,561 | 2,780 | 6,456 | 1,754 | 6,141 | 518 | 114,726 | 103,898 |
| Professional services | 64,494 | - | - | - | - | - | - | - | - | 64,494 | 124,465 |
| Other | 50,262 | - | - | 246 | - | - | - | - | - | 50,508 | 48,673 |
| Repairs and maintenance | 24,412 | 2,039 | 717 | 11,642 | 4,557 | 2,617 | 894 | 1,616 | 186 | 48,680 | 240,612 |
| Insurance | 21,474 | 737 | 410 | 3,570 | 767 | 1,394 | 639 | 894 | 427 | 30,312 | 27,538 |
| Allowance for uncollectible accounts | 7,993 | - | - | - | - | - | - | - | - | 7,993 | (10,012) |
| Taxes | 116 | - | - | - | - | - | - | - | - | 116 | 2,038 |
| Pool | - | - | - | 38,119 | - | - | - | - | - | 38,119 | 20,482 |
| Total expenses | 1,258,857 | 11,652 | 3,968 | 81,951 | 13,075 | 22,035 | 7,549 | 19,460 | 3,675 | 1,422,222 | 1,436,379 |
| Excess (deficiency) of revenues over expenses | (328,159) | 7,111 | 693 | 324 | 8,355 | 14,002 | 5,064 | 7,712 | 3,890 | (281,008) | (45,370) |
| Other Financing (Uses) Sources | | | | | | | | | | | |
| Transfers between funds | (5,796) | (1,205) | 7,322 | (1,060) | (529) | (1,662) | (253) | (593) | 3,776 | - | - |
| Net change in fund balances | (333,955) | 5,906 | 8,015 | (736) | 7,826 | 12,340 | 4,811 | 7,119 | 7,666 | (281,008) | (45,370) |
| Fund balance, beginning of year | 412,616 | 37,923 | 5,339 | 41,683 | 12,885 | 58,554 | 24,172 | 10,049 | 4,494 | 607,715 | 653,085 |
| Fund balance, end of year | \$ 78,661 | 43,829 | 13,354 | 40,947 | 20,711 | 70,894 | 28,983 | 17,168 | 12,160 | 326,707 | 607,715 |

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, 2022

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.