

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, 2019
with
Summarized Comparative Information for June 30, 2018

High Desert Residential Owners' Association, Inc.

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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, 2019, and the related statement 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 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, 2019, 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, 2018 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 Schedules 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
September 20, 2019

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.

BALANCE SHEETS

**June 30, 2019, with Summarized Comparative
Financial Information for June 30, 2018**

	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 Canon Reserve Fund	Total 2019	Total 2018
ASSETS													
Cash and cash equivalents, undesignated	\$ 930,607	-	-	-	-	-	-	-	-	-	-	930,607	416,061
Cash and cash equivalents, designated for future repairs and replacements	-	654,858	104,875	188,470	50,157	214,478	106,721	245,435	93,379	108,439	5,998	1,772,810	1,990,156
Assessment receivable, net	600	-	-	-	-	-	-	-	-	-	-	600	4,663
Accounts receivable	34,531	-	-	-	-	-	-	-	-	-	-	34,531	66,779
Prepaid expenses	8,512	-	-	-	-	-	-	-	-	-	-	8,512	6,042
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	1,665
Interest receivable	696	2,835	598	1,076	146	627	448	1,438	448	590	-	8,902	-
Total assets	\$ 974,946	657,693	105,473	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	2,755,962	2,485,366
LIABILITIES AND FUND BALANCES													
LIABILITIES													
Accounts payable and accrued expenses	\$ 71,480	-	-	-	-	-	-	-	-	-	-	71,480	96,539
Assessments received in advance	156,193	-	-	-	-	-	-	-	-	-	-	156,193	42,369
Taxes payable	6,496	-	-	-	-	-	-	-	-	-	-	6,496	5,192
Construction deposit payable	41,720	-	-	-	-	-	-	-	-	-	-	41,720	63,546
Due to other funds	-	-	-	-	-	-	-	-	-	-	-	-	1,665
Total liabilities	275,889	-	-	-	-	-	-	-	-	-	-	275,889	209,311
FUND BALANCES													
Unreserved, undesignated	699,057	-	-	-	-	-	-	-	-	-	-	699,057	488,600
Unreserved, designated for:													
Future replacements and repairs	-	657,693	-	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	1,675,543	1,683,940
Arroyo flood control	-	-	105,473	-	-	-	-	-	-	-	-	105,473	103,515
Total fund balances	699,057	657,693	105,473	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	2,480,073	2,276,055
Total liabilities and fund balances	\$ 974,946	657,693	105,473	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	2,755,962	2,485,366

The accompanying notes are an 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, 2019, with Summarized Comparative Financial
Information for the Year Ended June 30, 2018

	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 Canon Reserve Fund	Total 2019	Total 2018
Revenues													
Assessments	\$ 1,305,745	40,185	-	15,098	6,193	27,766	14,617	20,875	6,254	12,817	2,940	1,452,490	1,387,879
Cost sharing	74,992	-	-	-	-	-	-	-	-	-	-	74,992	70,630
Other:													
Developer subsidy	5,000	-	-	-	-	-	-	-	-	-	-	5,000	8,550
Miscellaneous income	24,495	-	-	-	-	-	-	-	-	-	-	24,495	31,476
Interest charges	3,581	-	-	-	-	-	-	-	-	-	-	3,581	4,456
Late fees and fines	3,600	-	-	-	-	-	-	-	-	-	-	3,600	7,695
Interest income	4,369	9,900	1,958	3,135	806	3,692	1,811	4,335	1,633	2,025	67	33,731	19,754
Unrealized gain (loss)	-	3,762	-	225	-	-	-	463	-	-	-	4,450	-
Total revenues	1,421,782	53,847	1,958	18,458	6,999	31,458	16,428	25,673	7,887	14,842	3,007	1,602,339	1,530,440
Expenses													
Landscape	474,420	-	-	-	-	-	-	-	-	-	-	474,420	645,205
Security services	213,358	-	-	-	-	-	-	-	-	-	-	213,358	212,421
Association management fees	138,407	-	-	-	-	-	-	-	-	-	-	138,407	134,599
Utilities	98,341	-	-	-	-	-	-	-	-	-	-	98,341	91,980
Other	67,682	-	-	-	-	-	-	-	-	-	-	67,682	67,054
Administrative assistant	51,649	-	-	-	-	-	-	-	-	-	-	51,649	51,601
Repairs and maintenance	50,312	-	-	-	-	-	-	-	-	-	-	50,312	16,124
Professional services	49,360	-	-	-	-	-	-	-	-	-	-	49,360	68,755
Pool	27,485	-	-	-	-	-	-	-	-	-	-	27,485	24,592
Insurance	22,030	-	-	-	-	-	-	-	-	-	-	22,030	21,332
Allowance for uncollectible accounts	12,432	-	-	-	-	-	-	-	-	-	-	12,432	34,930
Taxes	5,849	-	-	-	-	-	-	-	-	-	-	5,849	4,123
Reserve	-	33,787	-	18,855	5,057	54,934	13,426	34,039	6,859	20,029	10	186,996	260,967
Total expenses	1,211,325	33,787	-	18,855	5,057	54,934	13,426	34,039	6,859	20,029	10	1,398,321	1,633,683
Excess (deficiency) of revenues over expenses	210,457	20,060	1,958	(397)	1,942	(23,476)	3,002	(8,366)	1,028	(5,187)	2,997	204,018	(103,243)
Other Financing Sources (Uses)													
Transfers to reserve funds	-	-	-	-	-	-	-	-	-	-	-	-	(67,917)
Transfers from operating funds	-	-	-	-	-	-	-	-	-	-	-	-	67,917
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net change in fund balances	210,457	20,060	1,958	(397)	1,942	(23,476)	3,002	(8,366)	1,028	(5,187)	2,997	204,018	(103,243)
Fund balance, beginning of year	488,600	637,633	103,515	189,943	48,361	238,581	104,167	255,239	92,799	114,216	3,001	2,276,055	2,379,298
Fund balance, end of year	\$ 699,057	657,693	105,473	189,546	50,303	215,105	107,169	246,873	93,827	109,029	5,998	2,480,073	2,276,055

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, 2019, with Summarized Comparative Financial
Information for the Year Ended June 30, 2018

	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 Canon Reserve Fund	Total 2019	Total 2018
Cash Flows From Operating Activities													
Excess (deficiency) of revenues over expenses	\$ 210,457	20,060	1,958	(397)	1,942	(23,476)	3,002	(8,366)	1,028	(5,187)	2,997	204,018	(103,243)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash (used) provided by operating activities:													
Allowance for uncollectible accounts - assessments	-	-	-	-	-	-	-	-	-	-	-	-	7,430
Allowance for uncollectible accounts - receivables	12,432	-	-	-	-	-	-	-	-	-	-	12,432	27,500
Changes in assets and liabilities:													
Assessment receivable	4,063	-	-	-	-	-	-	-	-	-	-	4,063	(10,480)
Accounts receivable	19,816	-	-	-	-	-	-	-	-	-	-	19,816	(30,826)
Interest receivable	(696)	(2,835)	(598)	(1,076)	(146)	(627)	(448)	(1,438)	(448)	(590)	-	(8,902)	-
Prepaid expenses	(2,470)	-	-	-	-	-	-	-	-	-	-	(2,470)	(6,042)
Accounts payable and accrued expenses	(25,059)	-	-	-	-	-	-	-	-	-	-	(25,059)	(57,103)
Assessments received in advance	113,824	-	-	-	-	-	-	-	-	-	-	113,824	(107,425)
Construction deposit payable	(21,826)	-	-	-	-	-	-	-	-	-	-	(21,826)	-
Taxes payable	1,304	-	-	-	-	-	-	-	-	-	-	1,304	4,113
Net cash (used) provided by operating activities	311,845	17,225	1,360	(1,473)	1,796	(24,103)	2,554	(9,804)	580	(5,777)	2,997	297,200	(276,076)
Cash Flows From Financing Activities													
Due to and due from other funds	1,665	-	-	-	-	-	-	-	-	(1,665)	-	-	-
Interfund transfers	-	-	-	-	-	-	-	-	-	-	-	-	-
Net cash used by financing activities	1,665	-	-	-	-	-	-	-	-	(1,665)	-	-	-
Net change in cash and cash equivalents	313,510	17,225	1,360	(1,473)	1,796	(24,103)	2,554	(9,804)	580	(7,442)	2,997	297,200	(276,076)
Cash and cash equivalents:													
Beginning of year	617,097	637,633	103,515	189,943	48,361	238,581	104,167	255,239	92,799	115,881	3,001	2,406,217	2,682,293
End of year	\$ 930,607	654,858	104,875	188,470	50,157	214,478	106,721	245,435	93,379	108,439	5,998	2,703,417	2,406,217
Supplemental Disclosures of Cash Flow Information													
Cash payments for income taxes	\$ 4,113	-	-	-	-	-	-	-	-	-	-	4,113	10

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

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (with comparative information for June 30, 2018)

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 Fund – 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 Canon 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, 2019 (with comparative information for June 30, 2018)

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 organization's financial statements for the year ended June 30, 2018, 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, 2019 and 2018, 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, 2019 or 2018, 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, 2019 or 2018, respectively.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (with comparative information for June 30, 2018)

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, 2019 (with comparative information for June 30, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessments Receivable, net. The Association had assessments receivable of \$21,919 and \$45,285 at June 30, 2019 and 2018, respectively. Management has established an allowance for doubtful accounts of \$21,319 and \$40,622 during the year ending June 30, 2019 and 2018, 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.

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 (2017 through 2019) 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, 2019 (with comparative information for June 30, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest Income. Operating and replacement funds have individual interest-bearing accounts and certificates of deposit. Interest income associated with the accounts is reported in their respective funds.

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.

Reclass of Expenditures. Certain expenses from the June 30, 2018 audit have been reclassified in order to conform to the current year's financial statement presentation. Total income and expenses have not changed from the prior year.

NOTE 3. ECONOMIC DEPENDENCY

Approximately 90% and 91% of the Association's revenue for the years ended June 30, 2019 and 2018, 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, and Legends 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.

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 (with comparative information for June 30, 2018)

NOTE 4. FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONTINUED)

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 \$104,875 as required in accordance with the agreement with AMAFCA.

The Association designated \$146,745 and \$102,257 in reserve replacement funds and incurred \$186,996 and \$260,967 in reserve fund expenditures for the years ended June 30, 2019 and 2018, respectively. Accumulated reserve funds, which aggregate to \$1,772,810 and \$1,990,156 at June 30, 2019 and 2018, 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. 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 September 20, 2019, which is the date the financial statements are available to be issued. There were no material subsequent events

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
COMBINING SCHEDULES OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCES - VILLAGE OPERATING FUNDS
Year Ended June 30, 2019, with Summarized Comparative Financial
Information for the Year Ended June 30, 2018

	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 Canon Operating Fund	Total 2019	Total 2018
Revenues											
Assessments	\$ 1,128,375	14,542	5,951	80,234	13,103	30,101	10,282	22,895	262	1,305,745	1,285,622
Cost sharing	74,992	-	-	-	-	-	-	-	-	74,992	70,630
Other:											
Developer subsidy	-	-	-	-	-	-	-	-	5,000	5,000	5,500
Miscellaneous income	20,811	-	-	2,692	-	992	-	-	-	24,495	31,476
Interest charges	3,255	16	1	217	16	37	5	34	-	3,581	4,456
Late fees and fines	3,600	-	-	-	-	-	-	-	-	3,600	7,695
Interest income	4,166	30	8	65	18	45	14	21	2	4,369	1,874
Total revenues	1,235,199	14,588	5,960	83,208	13,137	31,175	10,301	22,950	5,264	1,421,782	1,407,253
Expenses											
Landscape	393,166	9,627	594	14,335	9,470	17,904	954	22,874	5,496	474,420	645,204
Security services	211,975	529	-	602	-	252	-	-	-	213,358	212,421
Association management fees	138,407	-	-	-	-	-	-	-	-	138,407	134,599
Utilities	64,315	2,877	1,448	16,374	2,418	5,381	1,611	3,370	547	98,341	91,980
Other	67,260	192	-	230	-	-	-	-	-	67,682	67,054
Administrative assistant	51,649	-	-	-	-	-	-	-	-	51,649	51,552
Repairs and maintenance	22,897	7,011	1,160	6,098	3,805	4,303	435	3,813	790	50,312	16,124
Professional services	49,360	-	-	-	-	-	-	-	-	49,360	68,755
Pool	-	-	-	27,485	-	-	-	-	-	27,485	24,592
Insurance	15,407	575	327	2,694	603	1,061	438	675	250	22,030	21,332
Allowance for uncollectible accounts	12,432	-	-	-	-	-	-	-	-	12,432	34,930
Taxes	2,439	610	157	723	352	844	317	394	13	5,849	4,123
Total expenses	1,029,307	21,421	3,686	68,541	16,648	29,745	3,755	31,126	7,096	1,211,325	1,372,666
Net change in fund balances	205,892	(6,833)	2,274	14,667	(3,511)	1,430	6,546	(8,176)	(1,832)	210,457	34,587
Fund balance, beginning of year	309,216	29,327	8,228	51,007	16,566	39,478	13,018	18,677	3,083	488,600	454,013
Fund balance, end of year	\$ 515,108	22,494	10,502	65,674	13,055	40,908	19,564	10,501	1,251	699,057	488,600

HIGH DESERT RESIDENTIAL OWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (Compiled)
June 30, 2019

An independent firm conducted a reserve study issued during May of 2016 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, and the Legends Village. 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 1.00% interest.

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

	Estimated Remaining Useful Life	Estimated Current Replacement Cost
Master Reserve	0 - 30	\$ 4,009,812
Canyon Village	0 - 30	1,408,729
Chaco Compound Village	0 - 30	612,096
Desert Mountain Village	0 - 30	3,263,207
Enclave Village	0 - 30	1,070,230
Trillium Village	0 - 30	1,992,307
Wilderness Compound	0 - 30	771,680
Legends Village	0 - 30	<u>1,279,461</u>
Total required reserve for repairs and replacements		<u>\$ 14,407,522</u>