

FOREST MEADOWS OWNER'S ASSOCIATION

**Reviewed Financial Statements
and Compiled Supplementary Information
For the Year Ended December 31, 2020**

FOREST MEADOWS OWNER'S ASSOCIATION

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E. SAMUEL WHEELER
KIMBERLY A. EGGER
Certified Public Accountants

Independent Accountant's Review Report

To The Board of Directors of
Forest Meadows Owner's Association
Murphys, California

We have reviewed the accompanying financial statements of Forest Meadows Owner's Association (a nonprofit mutual benefit corporation), which comprise the balance sheet as of December 31, 2020, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

We are required to be independent of Forest Meadows Owners Association, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our review.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The Supplementary information included in Schedule I - Schedule of Operating Fund Revenues and Expenses - Budget and Actual, on page 30 through page 34, and Schedule II - Schedule of Changes in Replacement Fund Balance, on page 35 through page 37, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information is the representation of management. We have compiled the supplementary information in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the supplementary information and, accordingly, we do not express an opinion, a conclusion, nor provide any assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property in Schedule III - Future Major Repairs and Replacements, on page 38 through page 40, be presented to supplement the basic financial statements. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The information is the responsibility of management. We have compiled the required supplementary information in accordance with the Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We have not audited or reviewed the required supplementary information and we do not express an opinion, a conclusion, nor provide any assurance on it.

Prior Year Comparative Information

The summarized comparative information for the year ended December 31, 2019, is presented for comparative purposes only and was extracted from financial statements presented by fund for that year. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles in the United States of America. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2019, from which the summarized information is derived. The financial statements for the year ended December 31, 2019, were reviewed by us and our report thereon, dated October 31, 2020, stated that we were not aware of any material modifications that should be made to the financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements taken as a whole.


Wheeler & Egger CPAs, LLP

Sonora, CA

March 22, 2022

FOREST MEADOWS OWNER'S ASSOCIATION
BALANCE SHEET
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
ASSETS				
Cash, including interest-bearing accounts	\$ 662,777	\$ 915,846	\$ 1,578,623	\$ 1,492,705
Assessments receivable, net of allowance for doubtful accounts	47,323	-	47,323	16,465
Other receivables	6,969	-	6,969	8,495
Prepaid taxes	874	-	874	1,409
Prepaid expenses	5,594	-	5,594	10,326
Prepaid insurance	9,762	-	9,762	12,463
Due from (to) reserve fund	(624)	-	(624)	3,486
Due (to) from operating fund	-	624	624	(3,486)
	<u>732,675</u>	<u>916,470</u>	<u>1,649,145</u>	<u>1,541,863</u>
Fixed Assets				
Property, plant and equipment	2,509,038	-	2,509,038	2,448,549
Less accumulated depreciation	<u>(732,973)</u>	<u>-</u>	<u>(732,973)</u>	<u>(1,022,786)</u>
Net Fixed Assets	<u>1,776,065</u>	<u>-</u>	<u>1,776,065</u>	<u>1,425,763</u>
TOTAL ASSETS	<u><u>\$ 2,508,740</u></u>	<u><u>\$ 916,470</u></u>	<u><u>\$ 3,425,210</u></u>	<u><u>\$ 2,967,626</u></u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 109,226	\$ -	\$ 109,226	\$ 11,758
Credit cards payable	1,404	-	1,404	3,628
Income taxes payable	885	-	885	-
Payroll taxes payable	-	-	-	22
Accrued vacations	17,160	-	17,160	13,168
Accrued wages	2,789	-	2,789	16,627
Assessments received in advance - Operating fund	195,347	-	195,347	154,481
Contract liabilities - (Assessments received in advance-Replacement Fund)	-	916,470	916,470	-
Developer deposits	40,000	-	40,000	40,000
Performance deposit	<u>17,670</u>	<u>-</u>	<u>17,670</u>	<u>6,000</u>
TOTAL LIABILITIES	<u>384,481</u>	<u>916,470</u>	<u>1,300,951</u>	<u>245,684</u>
Fund Balances	<u>2,124,259</u>	<u>-</u>	<u>2,124,259</u>	<u>2,721,942</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 2,508,740</u></u>	<u><u>\$ 916,470</u></u>	<u><u>\$ 3,425,210</u></u>	<u><u>\$ 2,967,626</u></u>

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
REVENUES				
Dues income - regular assessments	\$ 898,088	\$ 362,119	\$ 1,260,207	\$ 1,295,446
Dues income - late charges/interest	7,925	-	7,925	3,109
Transfer fees	22,500	-	22,500	13,500
Service agreement - Comcast	-	28,149	28,149	28,908
Advertising income	4,879	-	4,879	4,866
Collection fees	2,389	-	2,389	113
Directory sales	137	-	137	30
Copier usage	-	-	-	38
CC&R booklets	3,385	-	3,385	1,870
Road access fees	-	14,578	14,578	19,483
Road impact fees	-	1,440	1,440	3,360
Special individual assessments	3,825	-	3,825	1,650
Rental income	2,600	-	2,600	1,000
Interest income	423	299	722	2,378
Other income	4,670	-	4,670	3,005
Gate equipment	7,428	-	7,428	1,906
Parks and recreation	560	-	560	2,070
TOTAL REVENUES	958,809	406,585	1,365,394	1,382,732

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (Continued)
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
EXPENSES				
ADMINISTRATIVE EXPENSES				
Wages and salaries	\$ 143,504	\$ -	\$ 143,504	\$ 148,130
Accounting	4,584	-	4,584	6,676
Annual elections	-	-	-	3,071
Bad debt	32,472	-	32,472	8,374
Bank charges	275	5	280	163
Business memberships	1,124	-	1,124	1,259
Clubhouse expense	81	-	81	-
Collection fees	2,308	-	2,308	-
Depreciation	118,891	-	118,891	96,852
Direct deposit fees	640	-	640	344
Education and training	1,062	-	1,062	1,547
Employee benefits	1,353	-	1,353	1,552
Equipment rental	11,993	-	11,993	11,439
Filing fees	50	-	50	10
Gas and electric	11,317	-	11,317	10,349
General insurance	23,646	-	23,646	17,781
Health insurance	23,539	-	23,539	24,225
Income tax expense	18	2,170	2,188	4,584
Legal and professional	32,977	9,325	42,302	8,251
Office expenses	4,733	-	4,733	4,910
Operating contingency	-	-	-	2,482
Outside services	25,688	-	25,688	9,053
Payroll taxes	11,717	-	11,717	12,761
Penalties	6	-	6	-
Postage	3,864	-	3,864	3,003
Printing - miscellaneous	7,562	-	7,562	680
Printing - newsletter publications	9,736	-	9,736	11,979
Repairs and maintenance	16,636	-	16,636	4,748
Software updates	3,520	-	3,520	4,000
Supplies	20,024	-	20,024	9,759
Taxes/licenses	3,314	-	3,314	3,270
Telephone	2,531	-	2,531	2,424
Travel	1,489	-	1,489	3,429
Utilities	7,562	-	7,562	4,470
Water service	1,033	-	1,033	930
Web page	669	-	669	1,369
Workers' comp insurance	5,060	-	5,060	2,659
Total Administrative Expenses	534,978	11,500	546,478	426,533

FOREST MEADOWS OWNER'S ASSOCIATION**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (Continued)****For The Year Ended December 31, 2020**

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
RECREATION EXPENSES				
Wages	\$ 16,012	\$ -	\$ 16,012	\$ 16,586
Payroll taxes	2,186	-	2,186	2,396
Clubhouse expenses	1,345	-	1,345	524
Gas and electric	16,709	-	16,709	22,492
General insurance	1,457	-	1,457	1,457
Material and supplies	2,410	-	2,410	6,728
Office expenses	225	-	225	79
Pool chemicals	2,718	-	2,718	3,631
Pool maintenance	2,520	-	2,520	1,085
Repairs and maintenance	3,163	-	3,163	1,868
Taxes/licenses	1,402	-	1,402	1,235
Telephone	3,308	-	3,308	2,375
Uniforms/safety	-	-	-	123
Water	12,762	-	12,762	15,236
Workers' comp insurance	1,150	-	1,150	446
Total Recreation Expenses	67,367	-	67,367	76,261
SECURITY EXPENSES				
Wages	117,746	-	117,746	108,988
Payroll taxes	11,606	-	11,606	10,423
Education/training	-	-	-	199
Employee benefits	261	-	261	-
Equipment rental	1,772	-	1,772	1,925
General insurance	2,623	-	2,623	2,623
Health insurance	19,488	-	19,488	14,381
License and permits	350	-	350	289
Materials and supplies	318	-	318	1,415
Repairs and maintenance	677	-	677	913
Software updates	172	-	172	162
Surveillance	103	-	103	-
Uniforms and safety	-	-	-	412
Vehicle operating	-	-	-	2,922
Workers' comp insurance	5,291	-	5,291	2,147
Total Security Expenses	160,407	-	160,407	146,799

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (Continued)
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
MAINTENANCE EXPENSES				
Wages	\$ 161,023	\$ -	\$ 161,023	\$ 178,678
Payroll taxes	14,753	-	14,753	15,947
Education and training	-	-	-	389
Employee benefits	1,003	-	1,003	76
Equipment/tools	238	-	238	350
Equipment rental	84	-	84	81
Garbage	2,557	-	2,557	2,310
Gas and electric	3,849	-	3,849	1,705
General insurance	3,789	-	3,789	3,789
Health insurance	22,467	-	22,467	29,888
License and permits	-	-	-	286
Material and supplies	14,096	1,487	15,583	7,117
Office expenses	399	-	399	330
Repairs and maintenance	12,624	15,521	28,145	19,811
Road maintenance	-	7,982	7,982	600
Snow removal and sand	3,149	-	3,149	5,487
Surveillance	3,776	-	3,776	276
Telephone	1,459	-	1,459	1,127
Trail maintenance	9,530	-	9,530	28,769
Travel	15	-	15	-
Uniforms/safety	50	-	50	1,457
Vehicle operating	15,635	-	15,635	16,377
Water	3,245	-	3,245	3,194
Workers' comp insurance	11,502	-	11,502	4,981
Total Maintenance Expenses	285,243	24,990	310,233	323,025
TOTAL EXPENSES	1,047,995	36,490	1,084,485	972,618

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES (Continued)
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
EXCESS OF REVENUES OVER EXPENSES (EXCESS OF EXPENSES OVER REVENUES)	\$ (89,186)	\$ 370,095	\$ 280,909	\$ 410,114
Reallocation of 2020 Variable Income:				
Operating Fund to Replacement Fund	(44,698)	44,698	-	-
Transfers between funds:				
Replacement Fund to Operating Fund for asset purchases	414,793	(414,793)	-	-
NET CHANGE FUND BALANCE	280,909	-	280,909	-
BEGINNING FUND BALANCES,				
As previously reported	1,843,353	878,589	2,721,942	2,311,828
Reallocation of beginning balance to Contract Liability	-	(878,589)	(878,589)	-
BEGINNING FUND BALANCES,				
As adjusted	1,843,353	-	1,843,353	-
Prior Year rounding difference	(3)	-	(3)	-
ENDING FUND BALANCES	<u>\$ 2,124,259</u>	<u>\$ -</u>	<u>\$ 2,124,259</u>	<u>\$ 2,721,942</u>

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess of revenues over expenses (Excess of expenses over revenues)	\$ (89,186)	\$ 370,095	\$ 280,909	\$ 410,114
Adjustments to reconcile excess of revenues over expenses (excess of expenses over revenues) to net cash provided by operating activities:				
Depreciation	118,891	-	118,891	96,852
Bad debt	32,472	-	32,472	8,374
(Increase) Decrease in:				
Assessments receivable	(63,330)	-	(63,330)	(12,415)
Other receivables	1,526	-	1,526	(59)
Prepaid expenses	4,732	-	4,732	(8,188)
Prepaid income taxes	535	-	535	4,584
Prepaid insurance	2,701	-	2,701	(1,380)
Increase (Decrease) in:				
Accounts payable	97,467	-	97,467	1,562
Assessments received in advance	40,866	-	40,866	(42,131)
Income taxes payable	885	-	885	-
Accrued liabilities	(424)	-	(424)	28,068
Contract liability				
(Assessments received in advance - Replacement Fund)	-	37,881	37,881	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	147,135	407,976	555,111	485,381
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of equipment	(469,193)	-	(469,193)	(322,270)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(469,193)	-	(469,193)	(322,270)

FOREST MEADOWS OWNER'S ASSOCIATION
STATEMENT OF CASH FLOWS (Continued)
For The Year Ended December 31, 2020

	2020			2019
	Operating Fund	Replacement Fund	Total	Total (For comparative purposes only)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund transfers	\$ 414,793	\$ (414,793)	\$ -	\$ -
Allocation of variable income	(44,698)	44,698	-	-
Balances due to and from other fund	4,110	(4,110)	-	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>374,205</u>	<u>(374,205)</u>	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	52,147	33,771	85,918	163,111
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>610,630</u>	<u>882,075</u>	<u>1,492,705</u>	<u>1,329,594</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u><u>\$ 662,777</u></u>	<u><u>\$ 915,846</u></u>	<u><u>\$ 1,578,623</u></u>	<u><u>\$ 1,492,705</u></u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid	<u>\$ 774</u>	<u>\$ -</u>	<u>\$ 774</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FOREST MEADOWS OWNER'S ASSOCIATION

Notes to Financial Statements

FOREST MEADOWS OWNER'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

The Forest Meadows Owner's Association (FMOA or Association) is a nonprofit mutual benefit corporation established December 19, 1972, in the state of California. The Association was organized to provide for the ownership, management, repair, and maintenance of the common area property (including common facilities) within the development. The mission of the Association is to preserve, protect, and maintain the value and desirability of the unique community while promoting a safe environment, the quiet enjoyment of the amenities, community cooperation, and good citizenship. The development currently consists of 726 residential units located on approximately 1,700 acres in Murphys, California.

NOTE 2 – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 22, 2022, the date that the financial statements were available to be issued. (See Note 11 - Subsequent Events for additional details.)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Association are described below to enhance the usefulness of the financial statements to the reader.

Accounting Basis

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of reserves and expenses during the reporting period. Actual results could differ from these estimates.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. 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, including current expenditures to repair, manage, and care for the Association's property. Disposition of these monies is at the discretion of the Board of Directors (Board).

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (Continued)

Replacement (Reserve) Fund

This fund is used to accumulate financial resources designated for future major repairs, replacements, and common area improvements, and can only be disbursed for these specific purposes. (See Note 7 - Future Major Repairs and Replacements.)

Cash and Equivalents

For the purpose of reporting cash flows, the Association considers all cash accounts which are not subject to withdrawal, restrictions, or penalties; all highly-liquid debt instruments purchased with a maturity of three (3) months or less; as well as money market funds, to be cash or cash equivalents.

Member Assessments

Association members are subject to yearly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year-end are retained by the Association for use in future years. Prepaid assessments are deferred under *IRS Code Section 456* using the deferral method of reporting income in the year the assessment applies.

For the prior year ending December 31, 2019, effective November 20, 2018, the Board approved the 2019 Annual Pro Forma Budget. This includes the annual assessment of \$1,788 per lot effective January 1, 2019, and payable quarterly, representing an increase of \$40 per unit over 2018 or 2.3 percent (2.3%). The total annual assessment for 2019 is budgeted at \$1,294,509, of which \$885,821 is allocated to the operating fund and \$408,688 to the reserve fund.

For the year ending December 31, 2020, effective November 18, 2019, the Board approved the 2020 Annual Pro Forma Budget. This included the annual assessment of \$1,788 per lot, effective January 1, 2020, and payable quarterly, representing no change over 2019. The total annual assessment for 2020 was budgeted at \$1,298,137, of which \$898,137 was allocated to the operating fund and \$400,000 to the reserve fund.

For the next year ending December 31, 2021, effective November 23, 2020, the Board approved the 2021 Annual Pro Forma Budget. This included the annual assessment of \$1,848 per lot, effective January 1, 2021, and payable quarterly, representing an increase of \$60 over 2020. The total annual assessment for 2021 was budgeted at \$1,341,648, of which \$921,648 was allocated to the operating fund and \$420,000 to the reserve fund.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments Receivable

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessment revenue is recognized as the related performance obligations are satisfied at the transaction amounts expected to be collected. The Association's performance obligations related to its operating assessments are satisfied over time on a daily pro-rata basis using the input method. The performance obligations related to the replacement fund assessments are satisfied when these funds are expended for their designated purpose.

The Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from unit owners. The Association's policy is to submit accounts to a collection service, with the potential to record a lien or to foreclose on a property, with the support of legal counsel, when assessments are two (2) quarters past due. The Association's policy regarding the collection of assessments and lien rights are pursuant to the Association's Covenants, Conditions, and Restrictions (CC&Rs), as adopted by the Board on September 18, 2015.

Effective in May 2020, the Association approved changes to its Collection policy outlined as follows: 1) Annual assessments are due on January 1st, but may be paid in quarterly installments on the first (1st) day of each quarter; 2) Assessments become delinquent fifteen (15) days after they are due; There will be a ten percent (10%) late fee assessed per quarterly installment past due; 3) Beginning thirty (30) days after the assessment becomes due the account shall bear interest at the rate of twelve percent (12%) per annum (one percent (1%) per month); and 4) The failure to pay association assessments may result in the loss of an owner's property through foreclosure. Foreclosure may occur either as a result of a court action, known as judicial foreclosure, or without court action, often referred to as nonjudicial foreclosure. For delinquent assessments or dues in excess of one thousand eight hundred dollars (\$1,800) or more than twelve (12) months delinquent, an association may use judicial or nonjudicial foreclosure subject to the conditions set forth in Article 3 (commencing with Section 5700) of Chapter 8 of Part 5 of Division 4 of the Civil Code. Although approved, the updated collection policy will need to be formally adopted by the Board as soon as the Third restated CC&Rs and Bylaws are approved by the membership, with voting to be completed in 2022.

As of December 31, 2020 and 2019, the Association established an allowance for doubtful accounts in the amount of \$85,265 and \$53,373, respectively, based on accounts that are over one (1) year past due, are subject to lien, and therefore, are deemed "uncollectible."

Fair Value of Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, and accounts payable. These assets and liabilities are reflected at fair value, or at the carrying amount that approximates fair value because of the short maturity of the instruments.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due To/From Other Funds

The amounts reported as due to or due from other funds are based on the expenses paid by the operating fund which are then reimbursed by the (replacement) reserve fund, as well as adjustments for transfers that have not been made to the reserve fund for earnings collected by the operating fund that belong to the reserve fund.

Beginning Balance December 31, 2019

	Due from Operating Fund to Replacement Fund	\$ (3,486)
Add:	Underpayment by operating fund of 2020 variable income	727
Add:	Balance due for 2020 Comcast service agreement	28,149
Add:	Balance transferred from reserve fund for prior year expenses	21,227
Add:	Balance due for 2020 Road Access Fee	16,018
Less:	Balance due to operating fund for reimbursement of reserve expenses	(59,841)
Less:	Portion of 2020 income tax attributable to reserve income	<u>(2,170)</u>

Ending Balance December 31, 2020

Due from Operating Fund to Replacement Fund	<u>\$ 624</u>
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Property, Plant, and Equipment

The Association was originally capitalized by donations from the Association's developer. Such donations included but were not limited to: subdivision roadways, equestrian trails, tennis courts, and various other recreational facilities located in the Forest Meadows Development. It is not currently practical to determine the value of these assets and, accordingly, no such valuation is reflected in the accompanying financial statements. The Association capitalized all property and equipment to which it has title or other evidence of ownership, with the exception of real property directly associated with the Development. According to the Association's governing documents, FMOA is not authorized to sell any common area property or any other Association assets having an aggregate fair market value in excess of ten percent (10%) of current year expenses, without the written assent of the majority of the Board. Property and equipment acquired by the Association are recorded at cost.

In accordance with *FASB ASC 310-40-40-3*, if the Association takes possession of a foreclosed property, the property is recorded in the financial statements at its estimated fair market value. The difference between the property's estimated fair value and consideration given to acquire the property, which is generally the cost of delinquent assessments and collection fees, is recorded as a credit to the appropriate revenue account, "Gain on Acquisition of Foreclosed Property."

During the year ended December 31, 2021, the Association reviewed its current listing of depreciable assets and updated the tax depreciation schedule and books, to note assets previously disposed of or replaced, and properly reflect the remaining basis of property, plant, and equipment.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Capitalized common property is depreciated using the straight-line method, based on the estimated useful life of the related assets, which ranges from five (5) to thirty-nine (39) years as follows:

Furniture and Equipment	5-7 years
Machinery and Equipment	5-7 years
Improvements	10-20 years
Buildings	39 years

Compensated Absences

In accordance with *FASB ASC 710-10-25-1, Compensation*, the Association accrues vacation pay as earned. Accrual of vacation leave commences upon the date of employment and is based on an individual's anniversary date and number of years with the Association.

Contract Liabilities (Assessments received in advance-replacement fund)

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year ended December 31, 2020, was \$0 and \$916,470, respectively. There was no contract liability as of the beginning or end of the year ended December 31, 2019.

Interest Income

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

NOTE 4 – INCOME TAXES

The Association may elect to be taxed as a homeowners' association or as a regular corporation. For the years ended December 31, 2020 and 2019, the Association elected to be taxed as a regular corporation and filed Form 1120. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income (such as interest earnings, rent, advertising, road access fees, and service agreement revenue) at regular federal and state corporate rates. Per *Internal Revenue Code Section 277 (IRC Sec. 277)*, excess membership income may be exempt or deferred from taxation by, in effect, returning the excess to its members by either applying the excess income to the following year's assessments or refunding the excess to its members. In accordance with *IRC Sec. 277*, excess membership deductions may be carried forward to offset future net membership income. For the years ended December 31, 2020 and 2019, the Association had excess membership income (deductions) in the amount of (\$60,996) and \$2,561, respectively. The net cumulative total for the current and prior year's membership activity (for tax purposes), resulted in net membership income in excess of membership expenses in the amount of \$447,027 that will be carried forward to be applied to subsequent years' assessments and budget considerations (in accordance with *IRC Sec. 277*, and as elected under *Revenue Ruling 70-604*).

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 – INCOME TAXES (Continued)

The income tax expense for the period ended December 31, 2020 and 2019, is as follows:

	2020			2019
	Operating Fund	Replacement Fund	Total	Total
Federal	\$ 12	\$ 1,450	\$ 1,462	\$ 3,230
State	6	720	726	1,354
Total	<u>\$ 18</u>	<u>\$ 2,170</u>	<u>\$ 2,188</u>	<u>\$ 4,584</u>

The Association accounts for uncertain tax positions, if any, in accordance with *FASB ASC 740*. In accordance with these professional standards, the Association recognizes tax positions only to the extent that management believes it is "more likely than not" that its tax positions will be sustained upon IRS examination. Management believes that it has no uncertain tax position for the years ended December 31, 2020 and 2019.

The Association believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association's financial condition, net income, or cash flows. Accordingly, the Association has not recorded any reserves or related accruals for interest and penalties for uncertain tax provisions for the years ended December 31, 2020 and 2019.

The Association is subject to routine audits by taxing jurisdictions; however, there are no audits currently in progress for any tax periods. As of December 31, 2020, the tax years that remain subject to examination by taxing authorities begin with 2017 for the Internal Revenue Service (generally for three (3) years after the returns are filed) and 2016 for the Franchise Tax Board (generally for four (4) years after the returns are filed). In evaluation of the Association's tax provisions and accruals, future taxable income and reversal of temporary differences, if any, as well as interpretations and planning strategies are considered. The Association believes its estimates are appropriate, based on current facts and circumstances.

NOTE 5 - CONCENTRATIONS OF CREDIT RISK

The Association maintains cash balances with various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution. The Association's uninsured cash balances totaled \$813,517 and \$806,190 as of December 31, 2020 and 2019, respectively. The Association has not experienced any losses resulting from uninsured funds and believes it is not exposed to any significant credit risk to cash.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Operating Leases

Effective January 2019, the Association entered into a thirty-nine (39) month lease for a postage meter with FP Direct Mailing solutions at a monthly rate of \$43, plus applicable taxes and usage fees. The total annual expense under this lease was \$553 and \$533 for the years ending December 31, 2020 and 2019, respectively.

Effective September 24, 2018, the Association entered into a sixty-three (63) month lease with Smile BPI for a copier. The monthly payment under the lease is \$536, plus applicable taxes and fees. The total annual expense under this lease was \$7,419 and \$6,421 for the years ended December 31, 2020 and 2019, respectively.

Effective March 2015, the Association entered into a thirty-six (36) month lease for a network server, with SmileNet Service, to include installation and maintenance. The monthly payment under the lease is \$363 for the hardware/software and \$270 for the service plan, plus applicable taxes and fees. This lease was renewed in May 2018, for an additional thirty-six (36) months with monthly payments of \$298 for the hardware and software, \$600 for the managed service plan, and \$150 for customized/integrated solutions for a total of \$1,048, plus applicable taxes and fees. The total annual expense under these leases, including taxes and usage fees, was \$13,673 and \$13,3402 for the years ended December 31, 2020 and 2019, respectively (including the maintenance contract). This lease was terminated in September 2021. (See Note 11 - Subsequent Events.)

In addition, effective October 2014, the Association entered into a new lease agreement with Signal Service, for the installation, maintenance, and monitoring of the security system. In accordance with the terms of the agreement, the Association agreed to pay Signal Service a monthly service fee for five (5) years after completion of the installation of the equipment. The lease included an installation charge of \$822 and a monthly service fee of \$59, payable quarterly. The installation was completed during the year ended December 31, 2015, and the Association started making quarterly payments effective June 2015. In accordance with the terms of the contract, the agreement is automatically extended and renews itself under the same terms and conditions for successive periods of one (1) year each, after the initial period unless one party provides a thirty (30) day notice of cancellation. This lease was automatically renewed and remains in effect. The total annual expense under this lease was \$686 and \$722 for the years ended December 31, 2020 and 2019, respectively.

The following is a schedule of the future minimum payments required under these leases:

<u>Year Ended December 31</u>	<u>Amount</u>
2021	\$ 19,362
2022	19,008
2023	9,576
2024	6,432
2025	-
TOTAL	<u>\$ 54,378</u>

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - COMMITMENTS AND CONTINGENCIES (Continued)

Other Agreements

Effective May 20, 2014, the Board approved the Pay Lease Online Payment Agreement which would allow residents to pay their dues online by credit card or automatic bank withdrawal, beginning July 1, 2014. The Association entered into the month-to-month lease on May 20, 2014. There is a monthly fee of \$19.95 and a per transaction fee of \$2.95 for ACH or 3.5 percent (3.5%) for credit cards. The total annual expense under this agreement was \$239 and \$239 for the years ended December 31, 2020 and 2019, respectively.

In addition, effective December 2008, the Association entered into a quarterly maintenance contract with Valley Entry Systems, Inc. (Contractor). Under the terms of the agreement, the Contractor will service the gate entry system every quarter, to include labor only. The contract is to remain in effect until changed or cancelled in writing, by the Contractor or the Association. The Association was in the process of installing a new gate system, so their contract was temporarily placed on hold during the year's pending completion. The total annual expense under this agreement, not including parts or any additional services, was \$0 and \$450 for the years ended December 31, 2020 and 2019, respectively. The gate project was completed during the year ended December 31, 2020, and the quarterly payments of \$250 resumed in the first quarter of 2021.

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents and California state law require that the Board of Directors provide for future major repairs and replacements. Accumulated funds, which aggregate \$916,470 and \$878,589 at December 31, 2020 and 2019, respectively, are held in separate accounts and are generally not available for operating purposes. Expenditures from this fund must be approved by the Board. (See Schedule II - Schedule of Changes in Replacement Fund Balance and Schedule III - Future Major Repairs and Replacements for details regarding transactions of the reserve fund and allocation of the balances per components.)

2019 Reserve Fund

Effective January 1, 2019, the Board adopted an updated independent Reserve Study dated October 11, 2018, and approved by the Board on November 20, 2018, that estimates the remaining useful lives and replacement costs to repair or replace the common area property. The replacement costs were based on estimated costs to replace or repair the common property components at the date of the study. The estimated current replacement costs take into account the effects of inflation between the date of the study and the estimated date of the repair or replacement based on the estimated remaining useful lives.

Funding requirements as determined by the Reserve Study considered an inflation factor of three percent (3%) and interest of one percent (1%), net of taxes, and a threshold factor of five percent (5%) on amounts funded for future major repairs and replacements. As of the date of the study, it was projected that the reserve fund balance would be \$851,161 as of January 1, 2019. With their projected balance, it was estimated that the reserves were approximately fifty-three percent (53%) funded; per the study, the fully-funded reserve fund balance was estimated at \$1,593,067.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

2019 Reserve Fund (Continued)

According to the Association Reserve, Inc. study dated October 11, 2018, because the Association's reserve fund was estimated to be fifty-three percent (53%) funded, it was considered to be in an adequate reserve position. The reserve fund is considered adequate if the anticipated cash balance of the reserve fund is greater than or equal to a threshold balance of five percent (5%) for each year over the next thirty (30) years, without the anticipated need for a special assessment or increase greater than inflation.

As indicated, the funding goal per the Reserve Study, was designed to maintain a minimum threshold balance equal to five percent (5%) of the total replacement cost of all components included in the study. The reserve funding plan provides a five (5) year reserve fund contribution schedule and anticipated special assessments, if any, in order to meet an adequate reserve funding level. The five (5) year funding plan was designed to increase the Association's funding position to reach eighty-four percent (84%) funded by 2023.

Based on the five (5) year funding plan, the updated Reserve Study suggested a minimum contribution of \$92,500, quarterly, or \$370,000 annually. In order to balance the needs of the operating and reserve funds, and in consideration of long-term funding needs from the reserve account to meet upcoming reserve expenditures and the completion of short-term planned projects, the Board of Directors elected to approve increased funding to the reserves, above the recommended minimum contribution, to \$102,172 per quarter, or \$408,688 per year for 2019.

2020 Reserve Fund

Effective January 1, 2020, the Board adopted an updated independent Reserve Study dated November 14, 2019, and approved by the Board on November 18, 2019, that estimates the remaining useful lives and replacement costs to repair or replace the common area property. The replacement costs were based on estimated costs to replace or repair the common property components at the date of the study. The estimated current replacement costs take into account the effects of inflation between the date of the study and the estimated date of the repair or replacement, based on the estimated remaining useful lives.

The funding goal selected in the study is designed to maintain a minimum threshold balance equal to five percent (5%) of the total replacement costs of all components included in the study. The reserve funding plan provides a five (5) year reserve fund contribution schedule and anticipated special assessments, if applicable, in order to meet an adequate reserve funding level. The status of the reserve fund cash balance is evaluated as either adequate or inadequate. The reserve fund is considered adequate if the anticipated cash balance of the reserve fund is greater than or equal to a threshold balance of five percent (5%) for each year over the next thirty (30) years without the anticipated need for a special assessment or increase greater than inflation.

Funding requirements as determined by the Reserve Study considered an inflation factor of three percent (3%) and interest of 0.1 percent (0.1%), net of taxes, on amounts funded for future major repairs and replacements. As of the date of the study, it was projected that the reserve fund balance would be \$968,197 as of January 1, 2020. With this projected balance, it was estimated that the reserves were approximately fifty-four percent (54%) funded; per the study, the fully-funded reserve balance was estimated to be \$1,789,485.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

2020 Reserve Fund (Continued)

Based on a three (3) year funding plan, as outlined in the updated Reserve Study, a minimum contribution of \$102,172 quarterly, or \$408,688 annually, was suggested. The Board elected to reduce the funding to \$400,000 for 2020.

2021 Reserve Fund

Effective January 1, 2021, the Board adopted an updated independent Reserve Study dated November 10, 2020, and approved by the Board in November 2020, that estimates the remaining useful lives and replacement costs to repair or replace the common area property. The replacement costs were based on estimated costs to replace or repair the common property components at the date of the study. The estimated current replacement costs take into account the effects of inflation between the date of the study and the estimated date of the repair or replacement based on the estimated remaining useful lives.

As stated previously, the funding goal, per the Reserve Study, is designed to maintain a minimum threshold balance equal to five percent (5%) of the total replacement cost of all components included in the study. The reserve funding plan provides a five (5) year reserve fund contribution schedule and anticipated special assessments, if any, in order to meet an adequate reserve funding level. The status of the reserve fund cash balance is evaluated as either adequate or inadequate. The reserve fund is considered adequate if the anticipated cash balance of the reserve fund is greater than or equal to a threshold balance of five percent (5%) for each year over the next thirty (30) years without the anticipated need for a special assessment or increase greater than inflation.

Based on a five (5) year funding plan, the updated Reserve Study suggested a minimum contribution of \$102,172, quarterly, or \$408,688 annually. The Board of Directors elected to increased the 2021 funding to the reserves to \$105,000 per quarter, or \$420,000 per year.

Funding requirements as determined by the Reserve Study considered an inflation factor of three percent (3%) and interest of one percent (1%), net of taxes, and a threshold factor of five percent (5%) on amounts funded for future major repairs and replacements. As of the date of the study, it was projected that the reserve fund balance would be \$949,571 as of January 1, 2021. With this projected balance, it was estimated that the reserves were approximately fifty-six percent (56%) funded; per the study, the fully-funded reserve balance was estimated at \$1,686,420.

Reallocations of Revenue to Replacement Funds

Additionally, to support the reserve expenditures related to road improvements, revenues generated from road impact and road access fees are allocated to the reserve fund. For the years ended December 31, 2020 and 2019, the revenue earned from these sources that was specifically allocated to the "streets and asphalt" component of the reserve fund was \$16,078 and \$22,843, respectively.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

Reallocations of Revenue to Replacement Funds (Continued)

In addition, the Board previously approved that the net revenue received from variable income sources, including the Comcast service agreement revenue, be allocated and transferred to the reserve fund. (See Note 8 - Revenue and Service Agreements.) For the years ended December 31, 2020 and 2019, the total net revenue reallocated to the reserve fund from these sources was \$72,847 and \$55,989, respectively, and consisted of the following:

	2020	2019
Variable Income	\$ 44,698	\$ 27,081
Service Agreement - Comcast	28,149	28,908
	<u>\$ 72,847</u>	<u>\$ 55,989</u>

The Association is funding major repairs and replacements over the estimated useful lives of the components based on the study's estimated current replacement costs, considering amounts previously accumulated in the fund. Actual expenditures may vary from estimated future expenditures and the variations may be material; amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval in certain cases, to increase reserve fund assessments, to levy special assessments, or to delay repairs and replacements until funds are available.

NOTE 8 – REVENUE AND SERVICE AGREEMENTS

Service Agreement

Effective March 26, 2015, the Association entered into a service agreement (Agreement) with Comcast of California XV, LLC (Comcast). This Agreement granted Comcast the allowance to provide broadband services to the Association, and in return, the Association permitted Comcast to install, maintain, and operate a broadband communication system on the Association premises, in accordance with certain terms and conditions, as stated in the Agreement.

The Agreement included a marketing-support addendum, whereby Comcast had the right to market its services to existing and prospective owners and residents. In exchange for the marketing support, Comcast agreed to pay the Association a percentage of the revenue within forty-five (45) days following the end of each quarter, based on a schedule as outlined in the Agreement.

In addition, the parties entered into a compensation agreement (Compensation Agreement), whereby Comcast agreed to pay the Association a per unit fee of \$75 for the right to provide services on the Association premises. The initial payment due under the Compensation Agreement was \$44,175, which was received by the Association on June 23, 2015. Per this Compensation Agreement, the Association invoiced Comcast for each new unit constructed, upon issuance of the Certificate of Occupancy. Comcast was required to remit \$75 per unit within seventy-five (75) days of receipt of the invoice.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 – REVENUE AND SERVICE AGREEMENTS (Continued)

Service Agreement (Continued)

Effective June 1, 2018, the Association entered into a new five (5) year service agreement (2018 Agreement) with Comcast to grant Comcast continued allowance to provide broadband services to the Association, and in return, the Association was willing to continue to permit Comcast to install, maintain, and operate a broadband communication system on the Association premises, in accordance with certain terms and conditions as stated in the 2018 Agreement. Upon completion of the five (5) year term, the agreement shall automatically renew for successive periods of sixty (60) days unless either party provides a sixty (60) day notice of cancellation.

The 2018 Agreement also includes a marketing support addendum (Addendum), whereby Comcast has the right to market its services to existing and prospective homeowners and residents. In exchange for the marketing support, Comcast agreed to pay the Association a percentage of revenue, based on the type and level of service established with the customers, within forty-five (45) days following the end of each calendar quarter. Under this Addendum, the Association would be considered in default if it were to market similar services of another provider offering broadband services.

In addition, the parties entered into a revised compensation agreement, whereby Comcast was required to pay the Association a per unit fee of \$25 (total of \$14,725) as consideration for the Association entering into the 2018 Agreement. The payment was due within seventy-five (75) days of execution of the 2018 Agreement and was received in full on November 30, 2018.

These services were temporarily suspended during 2020 due to issues related to COVID-19. (See Note 11 - Subsequent Events.) During the years ended December 31, 2020 and 2019, respectively, the Association earned a gross revenue of \$28,147 and \$28,908 (including the per unit fee) under these service agreements.

Rental Agreement

Effective August 8, 2019, the Association began renting office space in the Gallery, under a month-to-month lease, at a rate of \$200 per month. The total annual rental income under this lease was \$2,000 and \$1,000 for the years ended December 31, 2020 and 2019, respectively. This lease was terminated in 2020.

Effective September 21, 2020, the Association entered into a new commercial lease for office space in the Gallery under a month-to-month lease, at a rate of \$150 per month. The total annual rental income under this lease was \$600 and \$0 for the years ended December 31, 2020 and 2019, respectively.

Legal Service Plan

On June 20, 2019, the Association signed the Corporate Legal Services Agreement (Agreement) with Angius & Terry, LLP (Attorney), effective July 1, 2019. The Association agreed to pay \$5,000 for legal services to be provided under this Agreement. In accordance with the term of the Agreement, the Association will receive a fifteen percent (15%) discount on all attorney fees incurred for legal services, excluding litigation.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 – REVENUE AND SERVICE AGREEMENTS (Continued)

Legal Service Plan (Continued)

Under this Agreement, the Association is entitled to an unlimited number of initial telephone and/or email consultations with Attorney on any and all new matters and/or legal issues that arise during the terms of the Agreement. Additionally, under the terms of the Agreement, Attorney agrees to provide: 1) a training session for the Board and Association Committee Members; and 2) an annual audit of governing documents to ensure they are in compliance with current laws, and to provide recommendations as needed. All other legal services are to be billed at regular hourly rates, less the fee discount of fifteen percent (15%). In accordance with the terms of the Agreement, the Association submitted the initial payment of fifty percent (50%) of the annual fee (\$2,500) upon execution of the Agreement on June 20, 2019, and the balance is to be due within sixty (60) days. This Agreement was automatically renewed in June 2020, and again in June 2021, under the same terms. This agreement was terminated effective December 21, 2021. (See Note 11 - Subsequent Events.)

Consulting Agreement

Effective October 20, 2020, the Association entered into a consulting agreement with George Lee of Gentium Golf, LLC. The Association is exploring the purchase of the Forest Meadows golf course and in accordance with the agreement will utilize George Lee to coordinate an evaluation and investigation that focuses on the following four (4) areas:

- 1) The cost to restore the property and improvements to an acceptable level for a green belt and community center;
- 2) The cost of ongoing maintenance and operations;
- 3) An estimate of a reasonable amount to be set aside in a reserve fund for future maintenance issues; and
- 4) Identify and quantify potential risks and liabilities FMOA will be assuming if the property is purchased.

Upon completion of the evaluation, George Lee is to provide a final report that details the various costs, risks, and associated potential liabilities associated with ownership of the property. In accordance with the terms of the Agreement, the Association will pay George Lee a total of \$15,000 payable in two (2) installments with fifty percent (50%) due upon execution of the agreement and the remaining fifty percent (50%) due upon completion and delivery of the final report. The initial payment of \$7,500 was issued on October 22, 2020, and the final payment issued on January 26, 2021. The Board approved the release of the report on February 8, 2021.

NOTE 9 – LITIGATION

The Association is, from time to time, involved in various legal proceedings arising in the ordinary course of business that, in the opinion of management, will not have a material effect on the Association's accompanying financial statements.

During 2020 and 2019, the Association incurred legal fees for other various small claims actions, primarily related to collection on debt, the Bylaws and CC&Rs, annexation agreements, employment issues, the potential purchase of the golf course, and other matters in the course of operations.

FOREST MEADOWS OWNER'S ASSOCIATION

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 – LITIGATION (CONTINUED)

The Association continues to incur legal expenses in connection with the annexation of Fairway Village. The Association previously entered into a cost-sharing agreement with the developer to negotiate reimbursement for expenses and usage of the facilities, roads, etc. During 2013, the last four (4) lots in Fairway Village were sold. In January 2014, the new owner submitted plans to the County to build-out the four remaining condos on Parcel 25, Lot A in Fairway Village. Under the Annexation Agreement, upon completion of the final unit, (Building 12 in Phase 1 - Lot A of the project), the balance of \$20,000 for the proportionate share of the new maintenance building was due from the developer. The assessment was due upon receipt of the Certificate of Occupancy from the County. In March 2014, the Board approved a letter notifying the new owner of the pending payment, per the terms of the recorded Annexation Agreement. On May 15, 2014, a certified letter from the Association's legal counsel was submitted to the new owner advising of the obligation. Construction of the 12th building within Phase 1 was completed during 2018 and was made available for sale. In September 2019, the Association received the final payment of \$20,000 due under this Agreement. During the years ended December 31, 2020 and 2019, there were 0 and 2 units, respectively, annexed into the Association and subject to regular dues assessments.

During 2020, the Association incurred over \$8,000 in legal fees in connection with the potential purchase of the golf course operations located adjacent to the development. The Association prepared a letter of intent, completed feasibility studies, and underwent extensive internal procedures associated with the potential acquisition.

In March 2021, the Association was advised that the developer (Sierra Development Group) was working with the owner of the golf course regarding development plans and subsequently entered into an agreement. The Association discontinued purchase efforts.

Additionally, during 2020, the Association incurred legal fees in connection with the preparation of updated CC&Rs. The first draft was submitted to the Association for review on December 1, 2020. The revision process continued throughout 2021, and the final draft was reviewed with legal counsel on December 2, 2021.

In accordance with the *FASB ASC 275*, the amount of the loss, if any, that may be ultimately realized from these legal proceedings, has not been reflected in the accompanying financial statements.

NOTE 10 - *FASB ASC 606* NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate - Common Interest Realty Associations (CIRA)*, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the CIRA expects to be entitled in exchange for those goods or services.

The Association Adopted the new guidance as of January 1, 2020, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to the beginning fund balance. The Association applied the new guidance using the "practical expedient" provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2020. Adoption of the new guidance resulted in changes to our accounting policies for assessment revenue and contract liabilities (assessments received in advance-replacement fund), as previously described.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (Continued)

The adoption of the new revenue recognition guidance resulted in change to the total fund balance as of January 1, 2020:

Fund balance, as previously reported at January 1, 2020	\$ 2,721,942
Adjustment	<u>(878,589)</u>
Fund balance, as adjusted at January 1, 2020	<u>\$ 1,843,353</u>

The effect of this adoption is a decrease in 2020 assessments by \$37,881 and a recording of the contract liability at December 31, 2020 of \$916,470. The Association has no customer contract modifications that had an effect on the Association's transition to the new guidance.

The modified retrospective method of transition requires us to disclose the effect of applying the new guidance on each item included in our 2020 financial statements. Following are the line items from our balance sheet as of December 31, 2020, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the balances reported under the new guidance:

	<u>Amounts That Would Have Been Reported</u>	<u>Effects of Applying New Guidance</u>	<u>As Reported</u>
<u>Liabilities:</u>			
Contract liabilities (Assessments received in advance-Replacement Fund)	\$ -	\$ 916,470	\$ 916,470
Total Liabilities	<u>\$ 384,482</u>	<u>\$ 916,470</u>	<u>\$ 1,300,952</u>
<u>Fund Balance:</u>			
Ending fund balances	<u>\$ 3,040,128</u>	<u>\$ (916,470)</u>	<u>\$ 2,124,258</u>

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION (Continued)

The following are the line items from the statement of revenues, expenses, and changes in fund balances and the statement of cash flows for the year ended December 31, 2020, that were affected, the amounts that would have been reported under the former guidance, the effects of applying the new guidance, and the amounts reported under the new guidance:

	Amounts That Would Have Been Reported	Effects of Applying New Guidance	As Reported
<u>Revenue:</u>			
Regular assessments	\$ 1,298,088	\$ (37,881)	\$ 1,260,207
Excess of revenues over expenses	318,789	(37,881)	280,908
<u>Cash Flows:</u>			
Excess of revenues over expenses	318,789	(37,881)	280,908
Increase in contract liabilities (Assessments received in advance-Replacement Fund)	-	37,881	37,881

NOTE 11 – SUBSEQUENT EVENTS

Subsequent events are evaluated through March 22, 2022, which is the date the financial statements were available to be issued.

Subsequent to the year end, the Association entered into several contracts for the major repair replacement and addition of common area property, utilizing reserve funds as designated for this purpose and approved by the Board.

Agreements

Operating Lease:

As described in Note 6 - Commitments and Contingencies, the lease with SmileNet Service for the network server was terminated in September 2021. The Association elected to cancel the contract with Smile due to nonperformance and discontinued payment. It was later determined that there was a clause in the contract that required a final payment due upon termination. The Association did not immediately make the payment as required, resulting in collections proceedings and an increased liability of over \$20,000. The Association was eventually able to reach a settlement agreement offer of \$12,000 paid effective September 9, 2021.

In April 2021, the Association entered into a contract for a software service subscription with TOPSsoftware (TOPS). It was later determined that the TOPS services were incompatible with the Association's current accounting systems, as well as too expensive for the Association's needs. The Association's legal counsel was able to negotiate a contract buyout for services provided (plus any unpaid balances) effective December 15, 2021. The pay-off agreement was at a cost of \$7,000 plus monthly service fee for December 2021, at a cost of \$724.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 – SUBSEQUENT EVENTS (Continued)

Agreements (Continued)

Employment and Consulting Agreements:

Effective November 1, 2021, the Association executed a "Severance Agreement and General Release" of the General Manager's (GM) employment with the Association that included some additional consideration as full and final release of all claims against the Association.

The Association then entered into an "Interim General Manager Consulting Agreement" with the previous GM. This agreement commenced on November 8, 2021, and was to remain in effect until a new GM was hired, on-site, and trained. Additionally, either party could terminate the agreement at any time with two (2) days written notice.

The Association also subsequently entered into an "Employment and Management Consulting Placement Agreement" with Adamen Inc. Under the terms of this Agreement, the Association would be liable for a placement fee of \$20,000 for any candidate provided by Adamen Inc. that the Association hires for a position within the Introduction Period of twelve (12) months from the date the candidate is introduced to the Association. If the employee does not remain and Adamen Inc. cannot find a replacement, the Association will be reimbursed a pro-rata share of the fee paid.

Other Consulting Agreements:

As described in Note 8 - Revenue and Service Agreements, the Association entered into a Consulting Agreement with George Lee. Under the terms of this agreement, the Association will pay George Lee a total of \$15,000 payable in two (2) installments with fifty percent (50%) due upon execution of the agreement and the remaining fifty percent (50%) due upon completion and delivery of the final report. The initial payment of \$7,500 was issued on October 22, 2020, and the final payment issued on January 26, 2021. The Board approved the release of the report on February 8, 2021.

Service Agreements:

Effective February 10, 2022, the Association entered into a two (2) year service agreement with Comcast Business for the installation and provision of internet. There is a monthly service fee of \$120 for the first twelve (12) months, increasing to \$135 for months thirteen (13) through twenty-four (24), then increasing to the regular service rates after month twenty-five (25). This agreement is pending trenching work to run the cable, that is still under consideration to determine if it is cost effective. The Association will not be billed under this agreement until the costs of the installation is confirmed and approved.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 – SUBSEQUENT EVENTS (Continued)

Agreements (Continued)

Legal Service Plans:

As indicated in Note 8 - Revenue and Service Agreements, the Corporate Legal Service Agreement with Angius & Terry LLP, was terminated effective December 21, 2021. The Association elected to transfer the legal services to Grime Law LLP due to a partnership change made by the Association's legal representative previously with Angius & Terry LLP.

Effective December 20, 2021, the Board approved an Hourly Rate Legal Services Agreement with Grime Law LLP. Under the terms of this Agreement, the Attorney agrees to provide legal counsel and to draft letters, memoranda, pleadings, and other documents. The Association agrees to pay for the legal services as provided in accordance with the Attorney's hourly rate fee schedule in effect at the time services are rendered.

Litigation

As indicated in Note 9 - Litigation, the Association incurred legal fees in connection with potential purchase of the golf course operations during the year ended December 31, 2021. Effective in March 2021, the Association discontinued further efforts connected with potential purchase as it was advised that the developer (Sierra Development Group) had entered into an agreement with the owner of the golf course.

Additionally, as indicated in Note 9 - Litigation, the Association had incurred legal fees in connection with updates to the CC&Rs. The first draft was submitted to the Association for review in December 1, 2020, and a final draft was reviewed with legal counsel on December 2, 2021. Language changes were finalized and the CC&Rs, with revisions, were approved by the Board. The Board is pending documents from legal counsel for membership mailings and the voting approval process.

Assessments

In November 2021, the Association was advised that due to a misrepresentation of past-due debt provided in a payoff demand due at the time of a sale, that the Association would be unable to collect on past due amounts owed by a prior owner. The discrepancy will result in a write-off of Assessments Receivable in excess of \$13,000 during 2021. Additionally, the Association will be liable for fees and lien costs incurred by the collection agency for a total loss of \$15,513. The past due balance for Assessments was included in the allowance for doubtful accounts as of December 31, 2020, and will be written off in 2021.

FOREST MEADOWS OWNER'S ASSOCIATION
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 – SUBSEQUENT EVENTS (Continued)

Retirement Plan

On November 9, 2021, the Board approved a Simple IRA retirement plan for the Association and opted to make a nonelective contribution at a rate of two percent (2%) of compensation to all eligible employees, regardless of whether they contribute to the plan.

To be considered eligible to participate, employees must have earned at least \$5,000 per year during the two (2) preceding years and reasonably expected to earn at least \$5,000 in the current year.

Eligible employees may elect to have a portion of their compensation contributed to the plan under a salary reduction agreement up to \$13,500 (\$16,500 if age fifty (50) or older) for 2021 and \$14,000 (\$17,000 if age fifty (50) or older) in 2022.

COVID-19

The World Health Organization declared that COVID-19 has constituted a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements, and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has caused business disruptions domestically that are anticipated to continue for the foreseeable future. While the Association operates in a unique industry, this matter has had an impact on its results. The extent and continued impact of the COVID-19 pandemic on the Association's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel restrictions and the impact of the COVID-19 pandemic on overall demand for the Association's services, all of which are highly uncertain and cannot be predicted.

NOTE 12 - FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2019 summary totals have been reclassified for comparative purposes to conform to the presentation in the financial statements for the year ended December 31, 2020.

FOREST MEADOWS OWNER'S ASSOCIATION

Supplementary Information
(Compiled)

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE I
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL (COMPILED)
For The Year Ended December 31, 2020

	December 31, 2020		
	Budget	Actual	Variance Fav/(Unf)
REVENUES			
Dues income - regular assessments	\$ 898,137	\$ 898,088	\$ (49)
Dues income - late charges and interest	-	7,925	7,925
Transfer fees	-	22,500	22,500
Advertising income	-	4,879	4,879
Collection fees	-	2,389	2,389
Directory sales	-	137	137
CC&R booklets	-	3,385	3,385
Special individual assessments	-	3,825	3,825
Rental income	-	2,600	2,600
Interest income	610	423	(187)
Other income	-	4,670	4,670
Gate equipment	-	7,428	7,428
Parks and recreation	-	560	560
Variable income	26,000	-	(26,000)
TOTAL REVENUE	924,747	958,809	34,062

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE I (Continued)
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL (COMPILED)
For The Year Ended December 31, 2020

EXPENSES	December 31, 2020		
	Budget	Actual	Variance Fav/(Unf)
ADMINISTRATIVE EXPENSES			
Wages - administrative	\$ 131,200	\$ 143,504	\$ (12,304)
Accounting	5,000	4,584	416
Annual elections	3,000	-	3,000
Bad debt	2,500	32,472	(29,972)
Bank charges	250	275	(25)
Business memberships	1,000	1,124	(124)
CC&R revisions	7,000	-	7,000
Clubhouse expense	-	81	(81)
Collection fees	-	2,308	(2,308)
Depreciation	-	118,891	(118,891)
Direct deposit fees	325	640	(315)
Education and training	3,000	1,062	1,938
Employee benefits	1,500	1,353	147
Equipment rental	11,736	11,993	(257)
Filing fee	50	50	-
Gas and electric	4,500	11,317	(6,817)
General insurance	32,000	23,646	8,354
Health insurance	13,600	23,539	(9,939)
Income tax expense	-	18	(18)
Legal and professional	8,000	32,977	(24,977)
Office expense	5,000	4,733	267
Operating contingency	5,000	-	5,000
Outside services	31,800	25,688	6,112
Payroll taxes	12,800	11,717	1,083
Penalties	-	6	(6)
Postage	3,500	3,864	(364)
Printing - miscellaneous	1,000	7,562	(6,562)
Printing - newsletter publications	13,000	9,736	3,264
Repairs and maintenance	2,000	16,636	(14,636)
Software updates	4,000	3,520	480
Supplies	6,500	20,024	(13,524)
Taxes/licenses	3,500	3,314	186
Telephone	2,620	2,531	89
Travel	2,250	1,489	761
Utilities	2,200	7,562	(5,362)
Water service	850	1,033	(183)
Web page	600	669	(69)
Workers' comp insurance	1,000	5,060	(4,060)
Total Administrative Expenses	322,281	534,978	(212,697)

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE I (Continued)
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL (COMPILED)
For The Year Ended December 31, 2020

	December 31, 2020		
	Budget	Actual	Variance Fav/(Unf)
RECREATION EXPENSES			
Wages	\$ 18,000	\$ 16,012	\$ 1,988
Payroll taxes	700	2,186	(1,486)
Club house expenses	500	1,345	(845)
Gas and electric	29,000	16,709	12,291
General insurance	-	1,457	(1,457)
Material and supplies	4,950	2,410	2,540
Office expenses	-	225	(225)
Pool chemicals	4,200	2,718	1,482
Pool maintenance	1,000	2,520	(1,520)
Repairs and maintenance	2,700	3,163	(463)
Taxes/license	825	1,402	(577)
Telephone	1,900	3,308	(1,408)
Uniforms/safety	250	-	250
Water	17,000	12,762	4,238
Workers' comp insurance	1,000	1,150	(150)
Total Recreation Expenses	82,025	67,367	14,658
SECURITY EXPENSES			
Wages	97,960	117,746	(19,786)
Payroll taxes	9,300	11,606	(2,306)
Employee benefits	3,000	261	2,739
Equipment rental	220	1,772	(1,552)
Gas and electric	5,000	-	5,000
General insurance	-	2,623	(2,623)
Health insurance	27,200	19,488	7,712
License and permits	375	350	25
Materials and supplies	2,500	318	2,182
Repairs and maintenance	1,900	677	1,223
Software updates	-	172	(172)
Surveillance	500	103	397
Uniforms and safety	750	-	750
Vehicle operating	2,900	-	2,900
Workers' comp insurance	5,000	5,291	(291)
Total Security Expenses	156,605	160,407	(3,802)

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE I (Continued)
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL (COMPILED)
For The Year Ended December 31, 2020

	December 31, 2020		
	Budget	Actual	Variance Fav/(Unf)
MAINTENANCE EXPENSES			
Salaries/wages	\$ 191,440	\$ 161,023	\$ 30,417
Payroll taxes	19,200	14,753	4,447
Employee benefits	3,000	1,003	1,997
Equipment/tools	1,000	238	762
Equipment rental	1,656	84	1,572
Garbage	-	2,557	(2,557)
Gas and electric	3,000	3,849	(849)
General insurance	-	3,789	(3,789)
Health insurance	27,200	22,467	4,733
License and permits	500	-	500
Lot cleanings	500	-	500
Material and supplies	6,500	14,096	(7,596)
Office expenses	-	399	(399)
Outside services	5,000	-	5,000
Repairs and maintenance	5,500	12,624	(7,124)
Road maintenance	2,000	-	2,000
Snow removal and sand	4,000	3,149	851
Surveillance	-	3,776	(3,776)
Telephone	1,080	1,459	(379)
Trail maintenance	26,000	9,530	16,470
Travel	-	15	(15)
Uniforms/safety	1,000	50	950
Vehicle operating	15,150	15,635	(485)
Water	5,000	3,245	1,755
Workers' comp insurance	6,000	11,502	(5,502)
Total Maintenance Expenses	324,726	285,243	39,483
TOTAL EXPENSES	885,637	1,047,995	(162,358)

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE I (Continued)
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES
BUDGET AND ACTUAL (COMPILED)
For The Year Ended December 31, 2020

	December 31, 2020		
	Budget	Actual	Variance Fav/(Unf)
EXCESS OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES (EXCESS OF OPERATING FUND EXPENSES OVER OPERATING FUND REVENUES) (Before reallocation of variable income to reserves)	39,110	(89,186)	(128,296)
REALLOCATION OF VARIABLE INCOME TO RESERVES	(26,000)	(44,698)	(18,698)
EXCESS OF OPERATING FUND REVENUES OVER OPERATING FUND EXPENSES (EXCESS OF OPERATING FUND EXPENSES OVER OPERATING FUND REVENUES) (After reallocation of variable income to reserves)	\$ 13,110	\$ (133,884)	\$ (146,994)

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE II
SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCE (COMPILED)
December 31, 2020

During the year ended December 31, 2020, the Association funded major repairs and replacements over the estimated useful lives of the components based on an independent Reserve Study dated November 14, 2019.

The actual amounts may vary from the estimated amounts and the variations could be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. The Association has the authority, subject to member approval, to assess special levies and/or delay major repairs and replacements until funds are available.

The following table details the replacement reserve appropriations, net interest income, expenditures for the year, allocation of variable income, service agreement revenue, and the replacement reserve fund balance as of December 31, 2020.

Effective January 1, 2021, the Association adopted an updated Reserve Study, dated November 10, 2020, to estimate the remaining useful lives and replacement costs of the common property components and funding requirements for 2021. This Reserve Study provided for the reallocation of funds amongst the components. The redistribution of the Association funds was based on the components' significance and remaining useful life, in accordance with each component's percentage funded per the study.

	Beginning Fund Balance at 12/31/19	Allocated Appropriations to the Fund for 2020	Expenditures from the Fund for 2020	Allocation of Income Net of Taxes and Fees	Allocation of Service and Real Property Agreement Revenue	Allocation of Variable Income Transfers and Road Fees	Reallocation of Components per Reserve Study	Components of Ending Fund Balance (Contract Liability) at 12/31/20
<i>Office Equipment</i>								
Computer/printers/software	\$ 2,305	\$ 2,755	\$ -	\$ (13)	\$ 194	\$ 308	\$ (2,045)	\$ 3,504
Phone system	854	612	-	(3)	43	68	(601)	973
<i>Entry Systems</i>								
Guard house/equipment	26,495	6,326	268,413	(30)	445	707	238,028	3,558
Building kiosk	2,239	401	-	(2)	28	45	(158)	2,553
Security gate/equipment	6,749	4,310	-	(20)	303	482	(4,129)	7,695
<i>Trails</i>								
Trail head benches	671	300	-	(1)	21	34	(163)	862
Trail maintenance	6,220	11,151	-	(52)	785	1,246	(12,259)	7,091
Fencing (dog park)	756	271	-	(1)	19	30	(127)	948
Drains/culverts, repairs	1,812	6,496	-	(30)	457	726	(7,395)	2,066
<i>Streets/Asphalt/Concrete</i>								
Streets and asphalt	383,916	164,184	29,564	(771)	11,555	34,365	(181,461)	382,224
Gallery asphalt	5,761	12,111	-	(57)	853	1,353	(10,153)	9,868
<i>Equipment</i>								
Lawn equipment	8,398	4,120	-	(19)	290	460	(3,662)	9,587
Miscellaneous equipment	4,089	7,530	-	(35)	530	841	(7,159)	5,796
Equipment and vehicles	46,647	16,728	59,000	(79)	1,177	1,869	31,164	38,506
Security vehicles	2,321	2,775	-	(13)	195	310	(2,060)	3,528
Tractor and Rhino	9,778	9,567	-	(45)	673	1,069	(7,865)	13,177
Snow plow	9,329	3,345	10,176	(16)	235	374	(2,028)	1,063
Fuel dispensary tank	1,145	178	-	(1)	13	20	7	1,362
<i>Miscellaneous</i>								
Carport maintenance	995	223	-	(1)	16	25	(52)	1,206
Maintenance - doors	3,109	446	-	(2)	31	50	(89)	3,545
Irrigation control	415	495	-	(2)	35	55	(368)	630
Monument sign	2,178	781	-	(4)	55	87	(616)	2,481
Reserve Study	1,422	1,701	9,325	(8)	120	190	7,523	1,623
Outdoor pole lights	595	427	-	(2)	30	48	(283)	815
Subtotal	528,199	257,233	376,478	(1,207)	18,103	44,762	34,049	504,661

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE II (Continued)
SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCE (COMPILED)
December 31, 2020

	Beginning Fund Balance at 12/31/19	Allocated Appropriations to the Fund for 2020	Expenditures from the Fund for 2020	Allocation of Income Net of Taxes and Fees	Allocation of Service and Real Property Agreement Revenue	Allocation of Variable Income Transfers and Road Fees	Reallocation of Components per Reserve Study	Components of Ending Fund Balance (Contract Liability) at 12/31/20
<i>Hilltop Park</i>								
Concrete	\$ 16,618	\$ 2,764	\$ -	\$ (13)	\$ 195	\$ 309	\$ (362)	\$ 19,511
Interior furnishings and appliances	12,295	2,996	-	(14)	211	335	(1,167)	14,656
Building components and fixtures	6,988	1,529	-	(7)	108	171	(549)	8,240
HVAC/heater	3,387	1,349	-	(6)	95	151	(685)	4,291
Refurbish (clubhouse)	2,695	744	-	(3)	52	83	(262)	3,309
Bathrooms	2,613	937	-	(4)	66	105	(441)	3,276
Shingle roof	4,453	532	-	(2)	37	59	1	5,080
Gutters and downspouts	411	163	-	(1)	11	18	(83)	519
Wood trim	2,415	1,082	-	(5)	76	121	(591)	3,098
Painting	2,286	1,271	-	(6)	89	142	(979)	2,803
BBQ	4,976	1,189	-	(6)	84	133	(704)	5,672
Tennis court bathrooms	9,330	1,338	-	(6)	94	150	(270)	10,636
Tennis court - repair/reconstruction	20,151	10,170	24,100	(48)	716	1,136	10,545	18,570
Tennis court - chain link fence	5,568	666	-	(3)	47	74	(2)	6,350
Basketball court - resurface	1,708	1,021	-	(5)	72	114	(639)	2,271
Basketball court - hoop	373	134	-	(1)	9	15	(105)	425
Pathways	1,554	5,575	-	(26)	392	623	(6,345)	1,773
Pool - resurface	4,950	4,305	-	(20)	303	481	(3,007)	7,012
Pool - furniture and equipment	12,154	5,241	-	(25)	369	586	(4,328)	13,997
Wader pool	1,969	785	-	(4)	55	88	(399)	2,494
Metal fencing	14,752	3,064	-	(14)	216	342	(878)	17,482
Wood fence	700	167	-	(1)	12	19	(45)	852
Tables	3,022	474	-	(2)	33	53	(99)	3,481
Benches	36	65	-	-	5	7	(51)	62
Stage	2,738	892	-	(4)	63	100	(385)	3,404
Pole lights	2,668	870	-	(4)	61	97	(374)	3,318
Play equipment	3,158	2,799	31,155	(13)	197	313	28,931	4,230
Play surface	346	620	-	(3)	44	69	(485)	591
Security surveillance	933	335	-	(2)	24	37	(264)	1,063
Folding chairs/tables	3,955	834	-	(4)	59	93	(163)	4,774
1500-gallon water holding tank	104	53	-	-	4	6	(32)	135
Landscape fund	378	680	-	(3)	48	76	(529)	650
<i>Meadowview Park</i>								
Concrete	26,880	5,681	-	(27)	400	635	(1,121)	32,448
BBQ	2,488	744	-	(3)	52	83	(527)	2,837
Tennis court - repair/reconstruction	24,161	7,335	-	(34)	516	820	(2,921)	29,877
Tennis court - chain link fence	7,469	1,359	-	(6)	96	152	(277)	8,793
Horseshoe pits	62	74	-	-	5	8	(55)	94
Pathways	932	3,345	-	(16)	235	374	(3,807)	1,063
Pool - resurface	2,492	2,075	-	(10)	146	232	(1,436)	3,499
Pool - furniture and equipment	3,289	2,726	-	(13)	192	305	(2,083)	4,416
Pool house	3,865	3,022	-	(14)	213	338	(2,055)	5,369
Metal fencing	11,248	2,336	-	(11)	164	261	(669)	13,329
Tables	1,799	285	-	(1)	20	32	(53)	2,082
Benches	173	89	-	-	6	10	(51)	227
Trellis	10,064	3,620	-	(17)	255	405	(3,405)	10,922
Stage	5,388	1,007	-	(5)	71	113	(697)	5,877
Lighting	1,378	694	-	(3)	49	78	1,298	3,494
Play equipment	10,730	1,924	-	(9)	135	215	(12,207)	788
Play surface	995	595	-	(3)	42	66	(562)	1,133
Security surveillance	1,554	558	-	(3)	39	62	(438)	1,772
Miscellaneous equipment	469	561	290	(3)	39	63	(305)	534
1000-gallon water holding tank	89	46	-	-	3	5	(27)	116
Landscape fund	587	701	-	(3)	49	78	(744)	668
Subtotal	265,796	93,421	55,545	(436)	6,574	10,441	(16,888)	303,363

See independent accountant's review report.

FOREST MEADOWS OWNER'S ASSOCIATION
SUPPLEMENTARY INFORMATION - SCHEDULE II (Continued)
SCHEDULE OF CHANGES IN REPLACEMENT FUND BALANCE (COMPILED)
December 31, 2020

	Beginning Fund Balance at 12/31/19	Allocated Appropriations to the Fund for 2020	Expenditures from the Fund for 2020	Allocation of Income Net of Taxes and Fees	Allocation of Service and Real Property Agreement Revenue	Allocation of Variable Income Transfers and Road Fees	Reallocation of Components per Reserve Study	Components of Ending Fund Balance (Contract Liability) at 12/31/20
<i>Office - Gallery</i>								
Landscaping	\$ 21,794	\$ 22,340	\$ 1,487	\$ (106)	\$ 1,573	\$ 2,496	\$ (16,631)	\$ 29,979
Misc. site systems	3,479	817	10,000	(4)	57	91	9,786	4,226
Pavement	1,238	739	-	(3)	52	83	(462)	1,647
Exterior doors	4,456	523	-	(2)	37	58	116	5,188
Exterior siding	3,737	2,486	-	(12)	175	278	(2,253)	4,411
Exterior windows	1,912	980	-	(5)	69	110	(575)	2,491
Furnishings	3,943	1,992	-	(9)	140	223	(1,333)	4,956
Interior renovations	6,831	3,859	-	(18)	272	431	(2,360)	9,015
Interior surfaces	8,216	5,641	-	(26)	397	630	(3,706)	11,152
Roofing	11,584	3,569	-	(17)	251	399	(1,807)	13,979
Appliances	291	173	-	(1)	12	19	(109)	385
Fire and alarm system	1,175	602	-	(3)	42	67	(354)	1,529
HVAC/heater	5,669	2,551	5,508	(12)	180	285	4,110	7,275
Interior lighting	7,830	1,626	-	(8)	114	182	(684)	9,060
Misc. mechanical and electrical	697	759	-	(4)	53	85	(586)	1,004
Plumbing	1,742	689	91	(3)	48	77	(313)	2,149
Subtotal	84,594	49,346	17,086	(233)	3,472	5,514	(17,161)	108,446
TOTAL	\$ 878,589	\$ 400,000	\$ 449,109	\$ (1,876)	\$ 28,149	\$ 60,717	\$ -	\$ 916,470

See the November 10, 2020, complete Reserve Study for additional details.

In accordance with *FASB ASC 606*, the Replacement Fund Balance as of December 31, 2020, is recorded as a contract liability per the financial statements.

The net income allocated to the replacement fund, as outlined in the above schedules, is derived from the following sources:

Allocation of Income Net of Taxes and Fees:

Interest income	\$	299
Bank fees		(5)
Taxes		(2,170)
TOTAL	\$	(1,876)

Allocation of Variable Income and Road Fees:

Variable income	\$	44,699	
Road fees			
Access fees		14,578	
Impact fees		1,440	
Subtotal		16,018	(Specifically allocated to streets and asphalt)
TOTAL	\$	60,717	

FOREST MEADOWS OWNER'S ASSOCIATION

Required Supplementary Information
(Compiled)

FOREST MEADOWS OWNER'S ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE III
FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)
For The Year Ended December 31, 2020

Below is a summary of the information as noted in the updated Reserve Study dated November 10, 2020, and approved by the Board of Directors to estimate the remaining useful lives and replacement costs of the common property components.

Funding requirements for 2021, as determined by the Reserve Study, consider an annual inflation factor of three percent (3%), and interest of one percent (1%), net of taxes, on amounts funded for future major repairs and replacements. As of the date of the study, it was estimated that the reserves were approximately fifty-six percent (56%) funded. The complete Reserve Study is available for review to obtain more detailed information.

Effective for 2021, the Association approved an allocation of assessments to the Reserve Fund in excess of the amount recommended per the reserve study. The allocation of the 2021 funding contribution was determined based on the components funding percentage per the study.

Components	Estimated Useful Life	Estimated Remaining Life	Estimated Current Replacement Costs	2021 Monthly Contribution	2021 Annual Contribution	Components of Fund Balance (Contract Liability) as of December 31, 2020
<i>Office Equipment</i>						
Computer/printers/software	0	0	\$ 6,447	\$ 234	\$ 2,806	\$ 3,504
Phone system	4	0	1,791	52	624	973
<i>Entry Systems</i>						
Guard house/equipment	10-30	9-29	149,878	950	11,397	3,558
Building kiosk	20	0	4,697	34	409	2,553
Security gate/equipment	5-10	0	14,159	363	4,360	7,695
<i>Trails</i>						
Trail head benches	18	9	3,167	26	306	862
Trail maintenance	2	0	13,048	946	11,356	7,091
Fencing (dog park)	20	9	3,172	23	276	948
Drains/culverts, repairs	1	0	3,800	551	6,615	2,066
<i>Street/Asphalt/Concrete</i>						
Streets and asphalt	1-30	0-27	1,471,210	14,181	170,166	382,224
Gallery asphalt	4-40	0-37	175,162	1,029	12,347	9,868
<i>Equipment</i>						
Lawn equipment	7-20	0-3	17,715	350	4,196	9,587
Miscellaneous equipment	1-5	0-1	12,752	639	7,668	5,796
Equipment and vehicles	7-10	0-9	121,435	1,761	21,137	38,506
Security vehicles	10	6	16,232	235	2,825	3,528
Tractor and Rhino	10	7	50,380	812	9,742	13,177
Snow plow	10	0	19,572	284	3,407	1,063
Fuel dispensary tank	25	1	2,610	15	182	1,362
<i>Miscellaneous</i>						
Carport maintenance	20	4	2,610	19	227	1,206
Maintenance - doors	25	0	6,524	38	454	3,545
Irrigation control	20	16	5,796	42	505	630
Monument sign	10	0	4,567	66	794	2,481
Reserve Study	3	0	2,985	144	1,732	1,623
Outdoor pole lights	30	24	7,498	36	435	815
Subtotal			2,117,207	22,830	273,966	504,661

FOREST MEADOWS OWNER'S ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE III (Continued)
FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)
For The Year Ended December 31, 2020

Components	Estimated Useful Life	Estimated Remaining Life	Estimated Current Replacement Costs	2021 Monthly Contribution	2021 Annual Contribution	Components of Fund Balance (Contract Liability) as of December 31, 2020
<i>Hilltop Park</i>						
Concrete	10-40	0-26	\$ 54,904	\$ 235	\$ 2,815	\$ 19,511
Interior furnishings and appliances	10-30	0-5	28,361	257	3,087	14,656
Building components and fixtures	15-30	1-14	17,157	130	1,556	8,240
HVAC/heater	12-15	2-5	11,560	115	1,374	4,291
Refurbish (clubhouse)	15	1	6,524	63	757	3,309
Bathrooms	25	14	13,700	79	954	3,276
Shingle roof	30	0	9,346	45	543	5,080
Gutters and downspouts	15	5	1,435	14	166	519
Wood trim	15	6	9,501	92	1,103	3,098
Painting	5-10	0-1	5,517	108	1,296	2,803
BBQ	15	0	10,438	101	1,212	5,672
Tennis court bathrooms	25	0	19,572	114	1,363	10,636
Tennis court - repair/reconstruction	5-10	0	45,603	869	10,425	18,570
Tennis court - chain link fence	30	0	11,685	57	678	6,350
Basketball court - resurface	10	3	5,970	87	1,039	2,271
Basketball court - hoop	10	0	783	11	137	425
Pathways	1	0	3,262	473	5,678	1,773
Pool - resurface	12-30	8-16	35,313	365	4,383	7,012
Pool - furniture and equipment	1-15	0-11	27,058	445	5,336	13,997
Wader pool	12-30	2-20	6,308	67	799	2,494
Metal fencing	5-25	0-1	33,389	260	3,120	17,482
Wood fence	20	4	1,957	14	171	852
Tables	20-25	0-3	6,602	40	482	3,481
Benches	20	17	760	6	66	62
Stage	20	8	10,438	76	908	3,404
Pole lights	20	8	10,177	74	886	3,318
Play equipment	9-20	0-17	27,491	237	2,850	4,230
Play surface	9	6	3,262	53	631	591
Security surveillance	10	0	1,957	28	340	1,063
Folding chairs/tables	20	2	9,761	71	850	4,774
1500-gallon water holding tank	30	22	922	4	53	135
Landscape fund	3	0	1,195	58	693	650
Subtotal			431,908	4,648	55,751	174,025

FOREST MEADOWS OWNER'S ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE III (Continued)
FUTURE MAJOR REPAIRS AND REPLACEMENTS (COMPILED)
For The Year Ended December 31, 2020

Components	Estimated Useful Life	Estimated Remaining Life	Estimated Current Replacement Costs	2021 Monthly Contribution	2021 Annual Contribution	Components of Fund Balance (Contract Liability) as of December 31, 2020
<i>Meadowview Park</i>						
Concrete	30	3-17	\$ 99,682	\$ 482	\$ 5,783	\$ 32,448
BBQ	12	0	5,219	63	757	2,837
Tennis court - repair/reconstruction	7-25	0	54,978	622	7,468	29,877
Tennis court - chain link fence	5-30	0-1	16,687	115	1,384	8,793
Horseshoe pits	15	11	652	6	76	94
Pathways	1	0	1,957	284	3,407	1,063
Pool - resurface	12-30	8-11	16,469	176	2,113	3,499
Pool - furniture and equipment	3-12	0-6	13,130	231	2,776	4,416
Pool house	5-20	1-17	23,501	256	3,077	5,369
Metal fencing	5-25	0-1	25,459	198	2,379	13,329
Tables	25	0-6	4,175	24	291	2,082
Benches	20	12	1,044	8	90	227
Trellis	5-30	3-16	43,416	269	3,232	10,922
Stage	4-25	0-3	11,303	85	1,026	5,877
Lighting	20	6-13	13,335	97	1,160	3,494
Play equipment	20	19	29,023	211	2,526	788
Play surface	6	0	2,088	50	605	1,133
Security surveillance	10	0	3,262	47	567	1,772
Miscellaneous equipment	3	0	984	48	570	534
1000-gallon water holding tank	30	22	799	4	46	116
Landscape fund	3	0	1,230	59	713	668
<i>Office - Gallery</i>						
Landscaping	1-40	0-336	199,533	1,897	22,748	29,979
Misc. site systems	20	2-12	9,562	69	831	4,226
Pavement	35-40	28-33	16,779	63	753	1,647
Exterior doors	30-40	0-12	10,461	44	531	5,188
Exterior siding	5-20	0-12	9,505	211	2,527	4,411
Exterior windows	20	12	11,459	83	997	2,491
Furnishings	10-15	0-8	15,873	169	2,028	4,956
Interior renovations	20-25	13-23	59,030	327	3,929	9,015
Interior surfaces	7-30	0-22	42,781	478	5,741	11,152
Roofing	7-30	0-17	45,467	303	3,635	13,979
Appliances	20	13	2,030	15	177	385
Fire and alarm system	18	10	6,334	51	612	1,529
HVAC/heater	15-20	5-12	26,219	216	2,598	7,275
Interior lighting	20-25	0-18	21,239	138	1,655	9,060
Misc. mechanical and electrical	12-15	0-27	12,282	64	772	1,004
Plumbing	15-40	0-32	13,547	59	703	2,149
Subtotal			870,494	7,522	90,283	237,784
		TOTAL	\$ 3,419,609	\$ 35,000	\$ 420,000	\$ 916,470