

# TIMOTHY, DeVOLT and COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

4099 McEWEN ROAD, SUITE 135

FARMERS BRANCH, TEXAS 75244

OFFICE: (972) 980-4315

FAX: (972) 702-0174

www.timothydevolt.com

September 20, 2023

To the Board of Directors  
Forest West Owners Association, Inc.

We have audited the financial statements of Forest West Owners Association, Inc., for the year ended December 31, 2021, and have issued our report thereon dated September 20, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you executed November 9, 2021. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### Qualitative Aspects of Accounting Practices

Management (the Board of Directors) is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Forest West Owners Association, Inc., are described in Footnote 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2021. We noted no transactions entered into by the association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management (the Board of Directors) and are based on management's (the Board of Directors') knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's (the Board of Directors') estimate of the allowance for doubtful accounts is based on historical revenue, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Qualitative Aspects of Accounting Practices: (Continued):

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The footnote dealing with the amounts allocated to the replacement fund for the year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

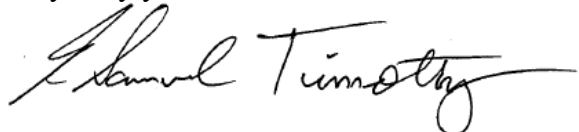
We have requested certain representations from the Board of Directors that are included in the management representation letter dated September 20, 2023.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Forest West Owners Association, Inc. board of directors and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Samuel Timothy". The signature is written in a cursive style with a large, looped initial "S".

Timothy, DeVolt and Company, P.C.  
Dallas, Texas

# TIMOTHY, DeVOLT and COMPANY, P.C.

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September 20, 2023

To the Board of Directors  
Forest West Owners Association, Inc.

In planning and performing our audit of the financial statements of Forest West Owners Association, Inc. as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered Bridlewood Homeowners Association's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management (the board of directors) or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A fundamental concept in a good system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected. Although the size of the entity's accounting staff might make complete adherence to this concept more difficult, we believe that adequate steps have been taken to segregate incompatible duties.

Management (the board of directors) is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial

statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

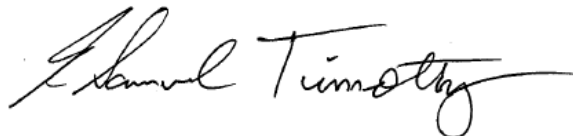
At times, management (the board of directors) may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management (the board of directors) is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally.

Specifically, management (the board of directors) is responsible for management decisions and functions: for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management (the board of directors) requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management (the board of directors) reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management (the board of directors) did not perform a detailed review of our work papers underlying the financial statements.

The existence of significant deficiencies or material weaknesses may already be known to management (the board of directors) and may represent a conscious decision by management (the board of directors) or those charged with governance to accept that degree of risk because of cost or other considerations. Management (the board of directors) is responsible for making decisions concerning costs and the related benefits. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management (the board of directors)'s decisions.

This communication is intended solely for the information and use of the association's board of directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Samuel Timothy". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Timothy, DeVolt and Company, P.C.  
Dallas, Texas

FOREST WEST OWNERS ASSOCIATION, INC.  
Fixed Asset Analysis  
12/31/2021

Date:	7/18/2022
Prepared By:	XC
Reviewed By:	

G/L #	Description	Acquisition Date	Basis	Beginning Balance	Additions	Retirements	Ending Balance
17500	Land		-	-	-	-	-
	TOTALS		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

G/L #	Description	Acquisition Date	Basis	Useful Life	Depr. Method	Beginning Balance	Additions	Retirements	Ending Balance
1740	Furniture & Equipment								
	Camera System	9/12/2018	8,969.60	5	s/l	8,969.60	-	-	8,969.60
			-	5	s/l	-	-	-	-
			-	5	s/l	-	-	-	-
	TOTALS		<u>8,969.60</u>			<u>8,969.60</u>	<u>-</u>	<u>-</u>	<u>8,969.60</u>

G/L #	Description	Acquisition Date	Basis	Useful Life	Depr. Method	Beginning Balance	Debit	Credit	Ending Balance
1770	Accumulated Depreciation								
	Camera System	9/12/2018	8,969.60	5	s/l	4,128.47	-	1,793.92	5,922.39
		0 1/0/1900	-	5	s/l	-	-	-	-
		0 1/0/1900	-	5	s/l	-	-	-	-
	TOTALS		<u>8,969.60</u>			<u>4,128.47</u>	<u>-</u>	<u>1,793.92</u>	<u>5,922.39</u>

NET VALUE - FIXED ASSETS

3,047.21

FOREST WEST OWNERS ASSOCIATION, INC.  
 Adjusting Entries - Detailed  
 12/31/2021

Date:	7/18/2022
Prepared By:	XC
Reviewed By:	ST

Page 1

AJE #	G/L Acct.	Account Name	Debit	Credit
1	1190	Allowance for Doubtful Accounts		100.00
1	1211	Prepaid Insurance		1,168.41
1	1770	Accumulated Depreciation		1,793.92
1	1212	Insurance Claim	1,950,000.00	
1	20000	Accounts Payable	5,126.37	
1	2015	Accrued Expenses Payable		1,108.12
1	2080	Notes Payable - current		836.53
1	20851	Income Tax Payable		528.00
1	2018	Insurance Note Payable	133.81	
1	2910	Deferred Insurance Proceeds		1,211,804.90
1	2019	Notes Payable - long term	975.66	
1	32000	Retained Earnings		738,895.96
		To record prior year audit's AJEs		
2	7010	Restricted Reserve Expense		12,348.06
2	3010	Restricted Replacement Reserves	12,348.06	
		To adjust beginning equity for presentation purpose		
3	20000	Accounts Payable		5,126.37
3	4040	Miscellaneous Income	5,126.37	
3	2015	Accrued Expenses Payable	1,108.12	
3	5410	Landscape Maint. - Contract		621.00
3	5578	Porter / Maid Service		487.12
		To reserve prior year audit's AJEs		
4	5170	Bad Debt Expense	500.00	
4	1190	Allowance for Doubtful Accounts		500.00
		To adjust Allowance for Bad Debts as of 12/31/2021		
5	54000	Depreciation Expense	1,793.92	
5	1770	Accumulated Depreciation		1,793.92
		To record Depreciation Expenses of 2021		
6	1211	Prepaid Insurance	2,238.50	
6	2018	Insurance Note Payable		2,926.38
6	6700	Interest Expense	2,073.07	
6	5220	Insurance - Property/Contents		1,385.19
		To adjust Prepaid Insurance as of 12/31/2021		
7	2080	Notes Payable - current		805.40
7	2019	Notes Payable - long term	805.40	
		To adjust Insurance Notes Payable as of 12/31/2021		
8	81030	Taxes - Income	3,825.00	
8	20851	Income Tax Payable		3,825.00
8	5148	Legal & Professional	712.50	
8	2015	Accrued Expenses Payable		712.50
		To accrue 2021 income tax and additional legal expenses as of 12/31/2021		
9	2910	Deferred Insurance Proceeds	85,632.50	
9	45000	Insurance Settlement Proceeds		85,632.50
		To recognize Insurance Settlement Income as of 12/31/2021		
		<b>Page Totals / Difference</b>	<b>2,072,399.28</b>	<b>2,072,399.28</b>

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FOREST WEST OWNERS ASSOCIATION, INC.

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DECEMBER 31, 2021

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Forest West Owners Association, Inc.  
Dallas, Texas

### **Opinion**

We have audited the financial statements of Forest West Owners Association, Inc., which comprise of the balance sheet as of December 31, 2021, and the related statement of income, changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Forest West Owners Association, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Forest West Owners Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Forest West Owners Association, Inc.'s ability to continue as a going concern for December 31, 2021 set by the applicable financial reporting framework.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material

if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements. In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Forest West Owners Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Forest West Owners Association, Inc.'s ability to continue as an ongoing concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Report on Supplementary Information**

As discussed in Footnote 10, the Association's Management (The Board of Directors) has not conducted a reserve study on future major repairs and replacements, which accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Very truly yours,

*Timothy, Devolt and Company, P.C.*

Timothy, DeVolt and Company, P.C.

Certified Public Accountants

September 20, 2023

FOREST WEST OWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2021

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>CURRENT ASSETS</b>			
Cash, including interest-bearing deposits	\$ 15,152	\$ 1,297,653	\$ 1,312,805
Certificates of deposit	831,497	228,990	1,060,487
Assessments receivable, less allowance for doubtful accounts of \$ 1,400	8,290		8,290
Prepaid insurance	48,737		48,737
Prepaid expense - other	94		94
<b>TOTAL CURRENT ASSETS</b>	<b>903,770</b>	<b>1,526,643</b>	<b>2,430,413</b>
<b>PROPERTY AND EQUIPMENT, AT COST</b>			
Tools & equipment	8,969		8,969
Less: accumulated depreciation	(5,922)		(5,922)
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>3,047</b>	<b>-</b>	<b>3,047</b>
<b>TOTAL ASSETS</b>	<b>\$ 906,817</b>	<b>\$ 1,526,643</b>	<b>\$ 2,433,460</b>

LIABILITIES AND FUND BALANCES			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 2,904	\$	\$ 2,904
Assessments received in advance	10,571		10,571
Note payable - insurance	36,871		36,871
Note payable - current portion	18,382		18,382
Income tax payable	4,353		4,353
<b>TOTAL CURRENT LIABILITIES</b>	<b>73,081</b>	<b>-</b>	<b>73,081</b>
<b>OTHER LIABILITIES</b>			
Note payable (less current portion)	42,780		42,780
Deferred insurance proceeds	2,278,974		2,278,974
<b>TOTAL OTHER LIABILITIES</b>	<b>2,321,754</b>	<b>-</b>	<b>2,321,754</b>
<b>TOTAL LIABILITIES</b>	<b>2,394,835</b>	<b>-</b>	<b>2,394,835</b>
<b>FUND BALANCES / (DEFICITS)</b>	<b>(1,488,018)</b>	<b>1,526,643</b>	<b>38,625</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 906,817</b>	<b>\$ 1,526,643</b>	<b>\$ 2,433,460</b>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

FOREST WEST OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2021

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 252,132	\$ 12,348	\$ 264,480
Insurance settlement proceeds	85,633		85,633
Interest income	13,050	4,069	17,119
Other income	1,300		1,300
Late/collection charges	875		875
Miscellaneous owner fees	400		400
<b>TOTAL REVENUES</b>	<b>353,390</b>	<b>16,417</b>	<b>369,807</b>
OPERATING EXPENSES			
Insurance settlement repairs	85,633		85,633
Insurance expense	65,581		65,581
Repairs - roofs	40,237		40,237
Porter service	19,667		19,667
Utilities expense	17,683		17,683
Management fees - contract	16,298		16,298
Legal & professional fees	9,139		9,139
Trash removal	8,583		8,583
Repairs - exterior	7,305		7,305
Bad debt expense	5,915		5,915
Pool maintenance & repairs	5,818		5,818
Interest expense	5,299		5,299
Landscaping & lawn maintenance	5,268		5,268
Taxes - income	3,825		3,825
Office supplies & admin. costs	2,971		2,971
Repairs - electrical	2,296		2,296
Cable / telephone expense	2,212		2,212
Pest control	1,991		1,991
Depreciation expense	1,794		1,794
Common area maintenance	1,751		1,751
Repairs - other	1,491		1,491
Repairs - plumbing	952		952
<b>TOTAL OPERATING EXPENSES</b>	<b>311,709</b>	<b>-</b>	<b>311,709</b>
<b>EXCESS REVENUES / (EXPENSES)</b>	<b>\$ 41,681</b>	<b>\$ 16,417</b>	<b>\$ 58,098</b>
BEGINNING FUND BALANCE / (DEFICIT)	(521,209)	501,736	(19,473)
INTER-FUND TRANSFERS	(1,008,490)	1,008,490	-
<b>ENDING FUND BALANCE / (DEFICIT)</b>	<b>\$ (1,488,018)</b>	<b>\$ 1,526,643</b>	<b>\$ 38,625</b>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

FOREST WEST OWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2021

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOW FROM OPERATING ACTIVITIES:			
Excess revenues/ (expenses)	\$ 41,681	\$ 16,417	\$ 58,098
Add: Depreciation	1,794	-	1,794
Decrease / (Increase) in:			
Accounts receivable	(2,439)	-	(2,439)
Prepaid expenses	(4,221)	-	(4,221)
Increase / (Decrease) in:			
Accounts payable	(5,660)	-	(5,660)
Prepaid assessments	(6,331)	-	(6,331)
Income tax payable	3,825	-	3,825
Miscellaneous liabilities	(85,633)	-	(85,633)
NET CASH PROVIDED/ (USED) BY OPERATIONS	<u>(56,984)</u>	<u>16,417</u>	<u>(40,567)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Investment in certificates of deposit	<u>1,076,109</u>	<u>(3,707)</u>	<u>1,072,402</u>
NET CASH PROVIDED/ (USED) BY INVESTING	<u>1,076,109</u>	<u>(3,707)</u>	<u>1,072,402</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Increase / (Decrease) in:			
Insurance notes payable	8,684	-	8,684
Notes payable	(17,531)	-	(17,531)
Inter-fund transfers	<u>(1,008,490)</u>	<u>1,008,490</u>	<u>-</u>
NET CASH PROVIDED/ (USED) BY FINANCING	<u>(1,017,337)</u>	<u>1,008,490</u>	<u>(8,847)</u>
NET INCREASE/ (DECREASE) IN CASH	1,788	1,021,200	1,022,988
CASH BALANCE, BEGINNING OF YEAR	<u>13,364</u>	<u>276,453</u>	<u>289,817</u>
CASH BALANCE, END OF YEAR	<u>\$ 15,152</u>	<u>\$ 1,297,653</u>	<u>\$ 1,312,805</u>
SUPPLEMENTAL DISCLOSURE:			
Cash paid during the year for:			
Federal Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Expense	<u>\$ 5,299</u>	<u>\$ -</u>	<u>\$ 5,299</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

FOOTNOTE 1: Forest West Owners Association, Inc. is a Texas non-profit corporation formed October 1, 1981. The purpose of the Association is to operate and maintain the Forest West Owners project. The project consists of 81 units and associated common areas located in Dallas, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through September 20, 2023, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for Forest West Owners Association, Inc. are maintained on the accrual basis of accounting.

FUND ACCOUNTING: The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction 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 the general operations of the Association.

REPLACEMENT FUND: This fund is used to accumulate financial resources designated for future major repairs and replacements.

CASH AND CASH EQUIVALENTS: For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

REVENUES: Revenues are accrued each month as the member assessments become due. Both the rate for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

REPLACEMENT FUND ASSESSMENT REVENUES: The Association has applied ASC 605 revenue recognition whereby "rules based" specific guidance was defined for CIRAs rather than ASC 606 which provides "principles based" broad standards that do not include specific guidance for CIRAs. Furthermore, Replacement Fund Assessments cannot apply the following four tests required under ASC 606: (1.) Assessments are not related to a "customer or customers" (2.) Assessments do not have a performance obligation (3.) There is no transaction price for replacement expenses (4.) Cannot allocate Assessments to a future performance obligation. As a result, we do not believe that the application of ASC 606 would fairly present the financial position to the CIRA financial readers.

See the accompanying Independent Auditors' Report.

FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

FOOTNOTE 3: (CONTINUED):

**EXPENDITURES:** Expenditures are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures must be approved by the President, Treasurer, or other member of the Board. All other expenditures, projects and services are contracted for using competitive bidding policies. The Board of Directors has the final approval on all contracts.

**ACCOUNTS RECEIVABLE:** Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has a lien right against each unit until all dues or assessments are paid, such liens being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings. Any excess assessments at year end are retained by the Association for use in the succeeding year.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS:** The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economic conditions. At December 31, 2021, the allowance for doubtful accounts of \$ 1,400 represents approximately 14 % of the total accounts receivable.

**PROPERTY AND EQUIPMENT:** The Association assumed, from the developer, the responsibility to maintain and preserve the common areas of the project. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because the Association cannot dispose of this property. The Association capitalizes personal property, if any, at cost and depreciates it using the straight-line method, over applicable useful lives. Depreciation expense for the year ended December 31, 2021 was \$ 1,794.

**FEDERAL INCOME TAX:** The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners Associations (Section 528) or (Section 277 Sub-Chapter A), dealing with corporations in general. Section 528 would impose a tax rate of 30 % to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Section 277 Sub-Chapter A imposes a tax rate of 21 % on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2021, the Association has elected to file under Section 528. Income tax for the year was \$ 3,825.

Currently, the open tax years available to audit by the IRS are 2019, 2020 and 2021. However, the Association has not been notified that any of these return years have been selected for audit by the IRS.

See the accompanying Independent Auditors' Report.

FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

FOOTNOTE 3: (CONTINUED):

ESTIMATES: The preparation of financial statements, in conformity with generally accepted accounting principles, 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance and other services. These contracts are generally for a term of one year and may generally be canceled by either party giving 30 days' notice.

FOOTNOTE 5: FAIR VALUE: The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements).

The carrying amounts reflected in the December 31, 2021 balance sheet for cash and cash equivalents approximate the respective fair values. All cash and cash equivalents, including money market accounts, are held in banks. The Association currently has no money market accounts with non-federally insured institutions.

FOOTNOTE 6: NOTE PAYABLE: The Association financed various capital improvements to common areas through Mutual of Omaha Bank for \$ 125,000. The annual interest rate is 3.25 %, for 1 year and increases to 4.50 % for the duration of the note, with a term of 8 years. Monthly payments of principal and interest in the amount of \$ 1,671. began in February of 2018 and increased to \$ 1,730 in March of 2019. Principal due over the next 4 years of the loan is:

2022	\$ 18,382
2023	19,226
2024	20,109
2025	3,444
TOTAL	<u>\$ 61,161</u>

See the accompanying Independent Auditors' Report.



FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021

FOOTNOTE 7: INSURANCE NOTE PAYABLE: The Association entered into a financing agreement with First Insurance Funding to finance the unpaid portion of the Association's insurance premiums. The total premiums on the policy were \$ 65,101, with a down payment of \$ 7,842. The remaining premium amount of \$ 57,259 was to be paid in 11 monthly payments, including interest at the rate of 7.17 %. The payments began in November of 2021 and continue through September of 2022. As of December 31, 2021, the remaining balance of the note payable was \$ 36,871.

FOOTNOTE 8: INSURANCE PROCEEDS AND REPAIRS: The Association suffered a fire loss in 2019 and filed an insurance claim. Insurance proceeds in the amount of \$ 1,363,400 were received in 2019, of which \$ 210,598 were spent on claim related repairs in 2019. Additional insurance proceeds of \$ 73,329 and settlement proceeds of \$ 1,950,000 were received in 2020, of which \$ 811,524 were spent on fire-loss related litigation and repairs in 2020. The Association incurred additional insurance related expenses of \$ 85,633 in 2021. Revenue recognition on the remaining \$ 2,278,974 is being deferred until it is spent.

FOOTNOTE 9: RELATED PARTY TRANSACTION: Lavetta Phillips, a member of the Association Board, received \$ 18,720 for porter services rendered as of December 31, 2021.

FOOTNOTE 10: REPLACEMENT FUND: The Association has not conducted a reserve study to determine the amount of future major repairs and replacements. The Association's governing documents generally provide for the levying for special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors, however, has chosen to establish a replacement fund and to accumulate funds for the estimated costs of future major repairs and replacements. For the year ended December 31, 2021, the Association added \$ 12,348, before earnings of \$ 4,069 to the replacement fund. Accumulated cash funds, which aggregate approximately \$ 1,526,643 at December 31, 2021, are held in separate accounts and are generally not available for operating purposes.

If replacement funds are not sufficient to fund future major repairs and replacements, the Association has the right to increase regular assessments or levy special assessments, or it may postpone needed repairs until funds are available.

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See the accompanying Independent Auditors' Report.