Financial Statements
December 31, 2021

Highlands Ranch Community Association, Inc.

(With Comparative Totals for 2020)

Independent Auditor's Report

To the Board of Directors
Highlands Ranch Community Association, Inc.
Highlands Ranch, Colorado

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Highlands Ranch Community Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balances, functional expense, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association 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 audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of estimated future major repairs and replacements on page 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Summarized Comparative Information

We have previously audited the Association's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 8, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Denver, Colorado
March 22, 2022

Highlands Ranch Community Association, Inc.

Balance Sheet

December 31, 2021

(with comparative totals for 2020)

	Administrative Fund			Recreation Fund						Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	Eliminations	2021	2020
Assets											
Cash and cash equivalents	$ 4,235,294	$ -	$ 4,186,425	$ 3,045,025	$ -	$ 457,445	$ -	$ -	$ -	$ 11,924,189	$ 10,440,349
Investments	200,000	-	663,556	362,185	-	-	-	-	-	1,225,741	2,291,147
Assessments receivable, net	21,515	-	-	145,468	-	-	-	-	-	166,983	275,010
Accounts receivable, other	7,677	-	20,360	69,377	7,461	2,590	-	1,551	-	109,016	82,536
Prepaid expenses and other assets	63,473	-	-	321,946	-	14,600	-	-	-	400,019	307,678
Due from other funds	46,970	-	6,500	1,943,373	1,270	18,197	-	-	(2,016,310)	-	-
Right-of-use asset	17,318	-	-	69,270	-	-	-	-	-	86,588	70,909
Assets designated for reserves:											
Cash and cash equivalents	-	18,671	-	-	5,522,092	-	83,029	-	-	5,623,792	3,301,608
Investments	-	873,362	-	-	115,625	-	131,732	-	-	1,120,719	447,175
Interfund loan receivable	-	-	337,500	-	-	-	-	-	(337,500)	-	-
Assets held for bond principal and interest payments:											
Cash and cash equivalents	-	-	-	-	-	-	-	2,746,366	-	2,746,366	3,264,427
Investments	-	-	-	-	-	-	-	200,000	-	200,000	528,226
Property, plant and equipment, net	-	208,616	-	-	-	-	538,230	33,012,926	-	33,759,772	35,415,683
Total assets	$ 4,592,247	$ 1,100,649	$ 5,214,341	$ 5,956,644	$ 5,646,448	$ 492,832	$ 752,991	$ 35,960,843	$ (2,353,810)	$ 57,363,185	$ 56,424,748
Liabilities and Fund Balances											
Liabilities											
Accounts payable and accrued expenses	$ 101,587	$ -	$ -	$ 209,217	$ 36,868	$ 127,267	$ 1,013	$ 43,359	$ -	$ 519,311	$ 547,384
Accrued payroll and related items	116,885	-	-	558,143	-	18,192	-	-	-	693,220	698,517
Assessments paid in advance	597,434	-	-	1,780,013	-	-	-	-	-	2,377,447	2,773,945
Deferred revenue	1,517	-	-	994,835	-	55,817	-	-	-	1,052,169	718,356
Due to other funds	1,913,683	-	-	48,419	320	52,176	-	1,712	(2,016,310)	-	-
Lease liability	16,255	-	-	65,022	-	-	-	-	-	81,277	64,460
Interfund loan payable	-	-	-	-	337,500	-	-	-	(337,500)	-	-
Bonds payable, net	-	-	-	-	-	-	-	8,519,430	-	8,519,430	10,808,315
Total liabilities	2,747,361	-	-	3,655,649	374,688	253,452	1,013	8,564,501	(2,353,810)	13,242,854	15,610,977
Fund Balances Without Donor Restrictions											
Undesignated	1,605,836	-	4,876,841	2,300,995	-	239,380	-	(161)	-	9,022,891	7,418,938
Invested in property, plant and equipment, net of related debt	-	208,616	-	-	-	-	538,230	24,450,137	-	25,196,983	24,553,372
Designated for special projects	239,050	-	-	-	-	-	-	-	-	239,050	1,559,842
Designated for reserves	-	892,033	337,500	-	5,271,760	-	213,748	-	-	6,715,041	3,488,966
Held for bond principal and interest payments	-	-	-	-	-	-	-	2,946,366	-	2,946,366	3,792,653
Total fund balances	1,844,886	1,100,649	5,214,341	2,300,995	5,271,760	239,380	751,978	27,396,342	-	44,120,331	40,813,771
Total liabilities and fund balances	$ 4,592,247	$ 1,100,649	$ 5,214,341	$ 5,956,644	$ 5,646,448	$ 492,832	$ 752,991	$ 35,960,843	$ (2,353,810)	$ 57,363,185	$ 56,424,748

Highlands Ranch Community Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances

Year Ended December 31, 2021

(with comparative totals for 2020)

	Administrative Fund			Recreation Fund						Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	Eliminations	2021	2020
Without Donor Restrictions											
Revenues											
Homeowner assessments and fees	$ 3,369,990	$ -	$ -	$ 16,853,999	$ -	$ -	$ -	$ -	$ -	$ 20,223,989	$ 20,011,860
Recreation programs	-	-	-	4,740,553	-	802,666	-	-	-	5,543,219	3,658,625
Facility operations	-	-	-	688,680	-	6,904	-	-	(66,283)	629,301	414,078
Community events	226,865	-	-	20,500	-	-	-	-	-	247,365	182,045
Management fee	389,240	-	-	136,740	-	-	-	-	(525,980)	-	-
Grant revenue - CARES Act	-	-	-	-	-	-	-	-	-	-	285,426
Interest and other revenue	149,089	1,921	22,745	42,298	6,786	58,976	593	6,646	(1,936)	287,118	368,235
Total revenues	4,135,184	1,921	22,745	22,482,770	6,786	868,546	593	6,646	(594,199)	26,930,992	24,920,269
Expenses											
Salaries, employee benefits and taxes	1,672,085	-	-	10,646,481	-	883,521	-	-	-	13,202,087	12,555,501
Supplies and contract labor	153,914	-	-	1,322,272	-	220,712	-	-	-	1,696,898	915,118
Professional services	488,748	-	-	395,119	-	8	-	-	-	883,875	764,409
Community advertising and marketing	10,873	-	-	57,078	-	-	-	-	-	67,951	52,052
Information technology	205,801	-	-	488,215	-	-	-	-	-	694,016	546,363
Office expenses	199,473	5,055	-	465,784	-	4,310	18	-	-	674,640	560,256
Insurance	75,710	-	-	385,568	-	38,344	-	-	-	499,622	340,107
Depreciation	-	60,383	-	-	-	-	126,656	2,579,494	-	2,766,533	2,908,282
Interest	-	-	-	-	1,936	-	-	667,566	(1,936)	667,566	964,577
Occupancy and utilities	69,052	-	-	1,933,760	-	41,997	-	-	(66,283)	1,978,526	1,614,047
Conferences, meetings and travel	30,987	-	-	11,798	-	22,153	-	-	-	64,938	65,247
Management fee	136,740	-	-	389,240	-	-	-	-	(525,980)	-	-
Other operating expenses	101,159	-	-	22,632	-	9,060	-	-	-	132,851	84,787
Total expenses	3,144,542	65,438	-	16,117,947	1,936	1,220,105	126,674	3,247,060	(594,199)	23,329,503	21,370,746
Losses											
Loss on asset disposal	-	(34,419)	-	-	-	-	(66,550)	(193,960)	-	(294,929)	(91,631)
Total losses	-	(34,419)	-	-	-	-	(66,550)	(193,960)	-	(294,929)	(91,631)
Excess (Deficiency) of Revenues Over Expenses	990,642	(97,936)	22,745	6,364,823	4,850	(351,559)	(192,631)	(3,434,374)	-	3,306,560	3,457,892
Transfers	(652,922)	652,922	(187,980)	(5,174,025)	1,256,917	447,692	190,288	3,467,108	-	-	-
Change in Fund Balance	337,720	554,986	(165,235)	1,190,798	1,261,767	96,133	(2,343)	32,734	-	3,306,560	3,457,892
Fund Balance, Beginning of Year	1,507,166	545,663	5,379,576	1,110,197	4,009,993	143,247	754,321	27,363,608	-	40,813,771	37,355,879
Fund Balance, End of Year	$ 1,844,886	$ 1,100,649	$ 5,214,341	$ 2,300,995	$ 5,271,760	$ 239,380	$ 751,978	$ 27,396,342	$ -	$ 44,120,331	$ 40,813,771

	2021			
	Recreation and Community Programs	Management and General	Total	2020
Salaries, employee benefits and taxes	$ 11,530,003	$ 1,672,084	$ 13,202,087	$ 12,555,501
Supplies and contract labor	1,542,985	153,913	1,696,898	915,118
Professional services	395,126	488,749	883,875	764,409
Community advertising and marketing	57,077	10,874	67,951	52,052
Information technology	488,215	205,801	694,016	546,363
Office expenses	470,111	204,529	674,640	560,256
Insurance	423,912	75,710	499,622	340,107
Depreciation	2,706,075	60,458	2,766,533	2,908,282
Interest	667,566	-	667,566	964,577
Occupancy and utilities	1,975,759	2,767	1,978,526	1,614,047
Conferences, meetings and travel	33,951	30,987	64,938	65,247
Other operating expenses	31,692	101,159	132,851	84,787
Total expenses	$ 20,322,472	$ 3,007,031	$ 23,329,503	$ 21,370,746

Highlands Ranch Community Association, Inc.

Statement of Cash Flows
Year Ended December 31, 2021
(with comparative totals for 2020)

	Administrative Fund			Recreation Fund					Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	2021	2020
Operating Activities										
Excess (deficiency) of revenues over expenses	$ 990,642	$ (97,936)	$ 22,745	$ 6,364,823	$ 4,850	$ (351,559)	$ (192,631)	$ (3,434,374)	$ 3,306,560	$ 3,457,892
Adjustment to reconcile excess (deficiency) of revenues over expenses to net cash from (used for) operating activities										
Depreciation expense	-	60,383	-	-	-	-	126,656	2,579,494	2,766,533	2,908,282
Loss on asset disposal	-	34,419	-	-	-	-	66,550	193,960	294,929	91,631
Interest expense attributable to amortization of bond issuance costs	-	-	-	-	-	-	-	31,115	31,115	45,095
Bad debt expense	8,353	-	-	-	-	-	-	-	8,353	13,166
Principal payments on leases	(10,942)	-	-	(43,767)	-	-	-	-	(54,709)	(55,927)
(Increase) decrease in operating assets										
Assessments receivable, net	(28,115)	-	-	127,789	-	-	-	-	99,674	25,420
Accounts receivable, other	(6,911)	-	(1)	(21,212)	2	369	-	1,273	(26,480)	49,164
Prepaid expenses and other assets	(24,161)	-	-	(68,723)	-	216	327	-	(92,341)	(23,013)
Right-of-use asset	11,169	-	-	44,678	-	-	-	-	55,847	53,605
Increase (decrease) in operating liabilities										
Accounts payable and accrued expenses	30,876	(4,542)	(3,654)	(28,588)	4,765	21,177	686	5,788	26,508	(109,239)
Accrued payroll and related items	(15,110)	-	-	10,933	-	(1,120)	-	-	(5,297)	108,663
Assessments paid in advance	198,541	-	-	(595,039)	-	-	-	-	(396,498)	1,016,674
Deferred revenue	(25,955)	-	-	359,768	-	-	-	-	333,813	(144,729)
Net Cash from (used for) Operating Activities	1,128,387	(7,676)	19,090	6,150,662	9,617	(330,917)	1,588	(622,744)	6,348,007	7,436,684
Investing Activities										
Net sales (purchases) of investments	(200,000)	(672,877)	1,269,086	(3,680)	(4,384)	-	3,717	328,226	720,088	2,451,462
Purchases of property and equipment	-	(15,112)	-	-	-	-	(32,061)	(1,358,378)	(1,405,551)	(1,696,225)
Net Cash from (used for) Investing Activities	(200,000)	(687,989)	1,269,086	(3,680)	(4,384)	-	(28,344)	(1,030,152)	(685,463)	755,237
Financing Activities										
Payment of accounts payable for property and equipment	-	(38,156)	-	-	-	-	-	(16,425)	(54,581)	(57,559)
Bond principal payments	-	-	-	-	-	-	-	(2,320,000)	(2,320,000)	(4,310,001)
Net borrowing and transfers among funds	(488,961)	610,740	106,414	(5,298,354)	1,106,563	452,943	39,395	3,471,260	-	-
Net Cash from (used for) Financing Activities	(488,961)	572,584	106,414	(5,298,354)	1,106,563	452,943	39,395	1,134,835	(2,374,581)	(4,367,560)
Net Change in Cash, Cash Equivalents, and Restricted Cash	439,426	(123,081)	1,394,590	848,628	1,111,796	122,026	12,639	(518,061)	3,287,963	3,824,361
Cash, Cash Equivalents, and Restricted Cash, Beginning of Year	3,795,868	141,752	2,791,835	2,196,397	4,410,296	335,419	70,390	3,264,427	17,006,384	13,182,023
Cash, Cash Equivalents, and Restricted Cash, End of Year	$ 4,235,294	$ 18,671	$ 4,186,425	$ 3,045,025	$ 5,522,092	$ 457,445	$ 83,029	$ 2,746,366	$ 20,294,347	$ 17,006,384

	Administrative Fund			Recreation Fund					Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	2021	2020
Cash and cash equivalents	$ 4,235,294	$ -	$ 4,186,425	$ 3,045,025	$ -	$ 457,445	$ -	$ -	$ 11,924,189	$ 10,440,349
Cash and cash equivalents designated for reserves	-	18,671	-	-	5,522,092	-	83,029	-	5,623,792	3,301,608
Cash and cash equivalents held for bond principal and interest payments	-	-	-	-	-	-	-	2,746,366	2,746,366	3,264,427
Total cash, cash equivalents, and restricted cash	$ 4,235,294	$ 18,671	$ 4,186,425	$ 3,045,025	$ 5,522,092	$ 457,445	$ 83,029	$ 2,746,366	$ 20,294,347	$ 17,006,384
Supplemental Disclosure of Cash Flow Information										
Cash paid during the year for interest	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 647,955	$ 647,955	$ 944,166
Cash paid during the year for leases	$ 11,713	$ -	$ -	$ 46,851	$ -	$ -	$ -	$ -	$ 58,564	$ 57,068
Supplemental Disclosure of Non-cash Investing Activity										
Property and equipment purchases included in accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 54,581
Right-of-use assets obtained in exchange for lease liabilities	$ 14,305	$ -	$ -	$ 57,221	$ -	$ -	$ -	$ -	$ 71,526	$ 33,624

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Highlands Ranch Community Association, Inc. (the Association, we, us, our) was incorporated in September 1981 as a nonprofit corporation to enhance the quality and value of all property that becomes part of the Community Association Area, to act as manager of Association-owned properties, and to perform functions for the benefit of owners of privately owned sites within the Community Association Area. The Community Association Area, located in what is known as Highlands Ranch, contains approximately 22,000 acres located in Douglas County, Colorado. As of December 31, 2021, the membership consisted of approximately 31,800 privately owned sites.

The Association owns and operates four recreation centers, providing year-round youth and adult fitness programs and educational opportunities, administers architectural control and covenant enforcement activities, manages the Backcountry Wilderness Area (the Backcountry), and normally hosts over 100 community events per year, but the number of events during 2021 were restricted due to the world-wide coronavirus pandemic.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Association's audited financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Fund Accounting

We have elected certain guidelines for governing our financial activities. To ensure observance of limitations and restrictions on the use of financial resources, we maintain our accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the financial statements in the following funds and subsidiary funds established according to their nature and purpose:

- Administrative Fund
    - Operating Fund
    - Reserve Fund
- Open Space Conservation Agreement Fund (OSCA Fund)
- Recreation Fund
    - Operating Fund
    - Reserve Fund
    - Backcountry Operating Fund
    - Backcountry Reserve Fund
    - Debt Service and Plant Fund

Operating funds account for all current operating transactions of the Association. Reserve funds are accumulated in separate bank accounts to provide for the future repair and replacement of common areas. The debt service and plant fund accounts for the recreational property and equipment and related debt. The OSCA fund accounts for all transactions related to the agreement with Shea Homes Limited Partnership (Shea Homes), the declarant.

As of December 31, 2021, the Association has no fund balances with donor restrictions.

Cash, Cash Equivalents, and Restricted Cash

We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents. Restricted cash represents funds designated for special projects, reserves, or held for bond principal and interest payments.

Investments

Investments are comprised of certificates of deposit that are initially recorded at cost. Thereafter, investments are reported at their fair values in the balance sheet. Net investment return/(loss) is reported in the statement of revenues, expenses, and changes in fund balances and consists of interest income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Assessments Receivable

Assessment fees are billed quarterly to all privately-owned sites based on annually budgeted amounts, which consider formulas contained in the Community Declaration. Under Colorado law, we have a statutory right to lien members' properties to ensure payment of assessments due. We determine the allowance for uncollectable assessments receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Assessments receivable are written off when deemed uncollectable. At December 31, 2021, the allowance was $72,186.

Accounts Receivable, Other

Other accounts receivable are comprised of interest and other miscellaneous receivables. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2021, no allowance for accounts receivable, other was considered necessary.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of expenses paid in advance but not yet incurred, and inventory of recreation center merchandise, which is carried at the lower of cost or net realizable value using the first-in, first-out method.

Assets Designated for Reserves

Assets designated for reserves are comprised of accumulated funds designated by the Board of Directors to ensure the availability of funds for future major repairs and replacements of common areas, and for general operations when needed.

Assets Held for Bond Principal and Interest Payments

Under the terms of our bond agreements, we are required to maintain a bond reserve fund equal to the scheduled maximum annual principal and interest payments on the bonds ($3,089,915 at December 31, 2021). The account funded at December 31, 2021 totaled $2,946,366. The difference is due to timing of transfers, which were made subsequent to year-end and to fund the reserves prior the next payment.

Property, Plant and Equipment

We capitalize all common real property to which we have title or other evidence of ownership and the legal right and/or ability either to dispose of the property at the discretion of the Board of Directors for cash or claims to cash, and retain the proceeds therefrom, or to use the property to generate significant cash flows from members on the basis of usage.

We record property and equipment additions over $3,000 with estimated useful lives greater than one year at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from two to thirty-nine years. Common areas are generally restricted to use by Association members, their tenants, and guests. We are responsible for the preservation and maintenance of the common areas. Replacements and improvements to the real property and common areas are capitalized at cost. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of revenues, expenses and changes in fund balances. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2021.

Under the terms of the Open Space Conservation Agreement (the OSCA Agreement) between the Association, Douglas County, and Shea Homes, we received 7,363 acres of land for use as open space or other permitted recreational, cultural, or educational purposes pursuant to the OSCA Plan. The land, known as the Backcountry, is not reflected as an asset in our financial statements because it is not severable and saleable at the Board's discretion without member delegates' approval, nor is it used to generate significant cash flows from the members of the Association.

Revenue and Revenue Recognition

We recognize revenue from homeowner assessments over the assessment period, which is generally one year, during which time members have continuous access to four recreation centers and common areas, architectural control and covenant enforcement, other services, and certain community events. The assessments are used to cover the costs of operating the Association, to maintain the common elements and improvements, and to provide for the repair and replacement of facilities. Assessments for 2021 were $155.72 per quarter/$622.88 per year per site. There are no changes to assessments starting January 1, 2022. Privately-owned sites designated for commercial use are billed for administrative purposes only.

Facility operations, including recreation programs, facility rentals, and product sales, as well as community events revenue is recognized when the programs, rentals, product sales or community events take place.

Homeowner assessments paid in advance are deferred to the assessment period to which they relate. All other amounts paid in advance are deferred to the period in which the underlying program, rental, product delivery or special community event takes place. Due to the nature and timing of the performance and/or transfer of services and products, substantially all deferred revenue at December 31 of each year is earned in the following year.

Advertising Costs

Advertising costs are expensed as incurred and totaled $67,951 during the year ended December 31, 2021.

Functional Allocation of Expenses

The costs of program and supporting services have been reported by both nature and function in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation and occupancy and utilities, which are allocated on a square footage basis, as well as salaries, employee benefits and taxes and insurance, which are allocated based on estimates of time and effort.

Income Taxes

The Association is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, we are subject to income tax on net income that is derived from business activities that are unrelated to our exempt purpose, and we file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. Unrelated business income primarily represents advertising revenue associated with our activity guide. We did not incur any material income tax expense from these unrelated activities for the year ended December 31, 2021.

We believe that we have appropriate support for any tax positions taken affecting our annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. We will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Our Form 990-T and related state income tax filings are no longer subject to tax examinations for years before 2018.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amount of 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 and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash and investments with financial institutions we believe to be creditworthy. Amounts on deposit at any single financial institution are limited so as not to exceed insurance limits. To date, we have not experienced losses in any of these accounts. Credit risk associated with assessments, and accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from homeowners, whose properties are subject to statutory limit to ensure payment.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported fund balances.

Subsequent Events

We have evaluated subsequent events through March 22, 2022, the date the financial statements were issued.

Note 2 - Liquidity and Availability

The following table reflects our financial assets as of December 31, 2021, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date, including amounts held for (1) Administrative Reserve, Recreation Reserve, Backcountry Reserve, and special projects; (2) investments with maturities greater than one year; and (3) amounts held to meet future bond repayment obligations.

Cash and cash equivalents (a)	$ 11,885,139
Investments (b)	766,872
Assessments receivable, net	166,983
Accounts receivable, other	109,016
Cash and cash equivalents and investments held for bond principal and interest payments in 2022	2,946,366
	$ 15,874,376

(a) Cash and cash equivalents not designated for reserves or special projects.
(b) Certificates of deposit maturing in 2022 not designated for reserves, special projects, or held for bond principal and interest payments.

We plan for expenditures by financial statement line item on an annual basis as part of the budget process. The annual budget is drafted with input from all of the Association's departments, and follows guidelines set forth by the Board of Directors each year, including having a balanced budget. The annual budget process includes consideration of amounts required for the upcoming year for operating and reserve expenditures, including bond repayment obligations of annual principal and interest. Following the annual budget adoption, we invest funds based on our fund management and reserve study policy, which allows investment in low-risk financial instruments such as certificates of deposit and money market funds.

Note 3 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Association's assessment of the quality, risk, or liquidity profile of the asset or liability.

Investment assets consists of certificates of deposits and mortgage-backed securities totaling $2,265,787 and $280,673, respectively at December 31, 2021. These are classified within Level 2 because they are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

The Board of Directors has designated $1,120,719 of the investment balance for reserves for future operations and replacements, and $200,000 of the investment balance is being held for bond principal and interest payments.

Note 4 - Property, Plant and Equipment

Property and equipment consists of the following at December 31, 2021:

	Administrative Fund	Recreation Fund		
	Reserves	Backcountry Reserves	Debt Service and Plant	Total
Buildings and improvements	$ -	$ 301,372	$ 67,658,497	$ 67,959,869
Furniture and equipment	541,730	964,431	5,912,394	7,418,555
Land	-	-	1,925,000	1,925,000
	541,730	1,265,803	75,495,891	77,303,424
Less accumulated depreciation	(387,121)	(746,995)	(42,672,858)	(43,806,974)
	154,609	518,808	32,823,033	33,496,450
Construction in progress	54,007	19,422	189,893	263,322
	$ 208,616	$ 538,230	$ 33,012,926	$ 33,759,772

Note 5 - Leases

The Association leases certain copiers and vehicles for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2024. The Association included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Association estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Association's applicable borrowing rates and the contractual lease term.

The Association has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

Lease expense for the year ended December 31, 2021 totaled $57,966.

The Association elected the practical expedient to not separate lease and non-lease components for certain copiers and vehicles.

The Association's weighted-average remaining lease term and weighted-average discount rate for operating leases is 2.98 years and 5.14%, respectively. The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below for the years ending December 31:

2022	$ 46,271
2023	32,759
2024	2,247
Present value of lease liabilities	$ 81,277

Note 6 - Interfund Agreement and Transactions

We account for transactions that impact multiple funds by recognizing amounts due to other funds and amounts due from other funds in the balance sheet. These transactions are cash settled on a regular basis, are non-interest bearing and generally are short-term in nature.

In April 2014, we entered into a $1,500,000 OSCA Loan Agreement (the OSCA Loan), between the OSCA Fund and the Recreation Reserve Fund, which matures in January 2024. The proceeds of the OSCA Loan were utilized to fund an energy savings project and associated repair and replacement costs. The OSCA Loan bears interest at a rate commensurate with the highest current interest rate for a one-year certificate of deposit available to us through Morgan Stanley as of January 1 and July 1 of each calendar year (0.35% at December 31, 2021), with interest and principal payable quarterly. The Recreation Reserve Fund may prepay the OSCA Loan at any time without penalty. The balance outstanding at December 31, 2021 is $337,500.

In addition, the administrative operating fund and the recreation operating fund charge an interfund management fee for legal and other related costs associated with assessment fees. This is fee is recognized based on the Association's Community Declaration in which a portion of assessment fees is allocated pro-ratably among the administrative operating fund and the recreation operating fund.

Note 7 - Bonds Payable

Bonds payable consist of the following at December 31, 2021:

Series 2004 Homeowners Assessment Revenue Bonds, dated August 19, 2004 (a) (b)	$ 8,519,430

(a) Payable in annually increasing amounts through 2024, with interest due semi-annually at 5.95%, net of unamortized bond issuance costs of $50,570 (based upon an effective interest rate of 6.27%).
(b) The bonds are callable in whole or in part at any time, are subject to a call premium based on the net present value of the future cash flows of the bonds called, discounted using a defined market rate at the time of redemption. The bonds and interest are insured as to repayment by MBIA Insurance Corporation.

We are subject to various bond covenants, including a requirement that the Association make deposits equal to one-fourth of the annual principal and interest due for the fiscal year to the Bond Fund each quarter. The fourth quarter deposit must be made prior to December 1st each year.

Future bond principal and interest payments, and amortization of bond issuance costs, are as follows for the years ending December 31:

	Principal	Interest	Total
2022	$ 2,580,000	$ 509,915	$ 3,089,915
2023	2,850,000	356,405	3,206,405
2024	3,140,000	186,830	3,326,830
	8,570,000	1,053,150	9,623,150
Less unamortized debt issuance costs	(50,570)	-	(50,570)
	$ 8,519,430	$ 1,053,150	$ 9,572,580

Note 8 - Revenue from Contracts with Customers

The following table provides information about significant changes in the assessments paid in advance and deferred revenue for the year ended December 31, 2021:

Assessments paid in advance, beginning of year	$ 2,773,945
Homeowner assessments and fees revenue recognized	(20,223,989)
Collections of homeowner assessments and fees	19,827,491
Assessments paid in advance, end of year	$ 2,377,447
Deferred revenue, beginning of year	$ 718,356
Recreational programs, facility operations, and community events revenue recognized	(6,419,885)
Collections of program, facility, and community fees	6,753,698
Deferred revenue, end of year	$ 1,052,169

Note 9 - Future Major Repairs and Replacements

The Association's Community Declaration requires the accumulation of funds for future major repairs and replacements of common areas, and for general operations to ensure the availability of funds when needed. We fund these reserves on a monthly basis. We annually review the reserve funding program as part of its budgeting process.

We retained an engineering firm to perform a study of our recreational buildings and equipment in 2014. Based on this analysis, we have accumulated funds totaling $892,033 in the Administrative Reserve Fund, $5,637,717 in the Recreation Reserve Fund, and $214,761 in the Backcountry Reserve Fund for the future repair and replacement of administrative office equipment, future repair and replacement of recreation facilities and equipment, and backcountry trails and property improvements, respectively. Subsequent to December 31, 2021, a new study was completed to estimate the remaining useful lives and the replacement costs of the components of recreational common property. See Required Supplemental Information for further detail.

We have established funding requirements of $4,172,570, $49,000 and $10,000 in the 2022 Recreational Reserve Fund budget, the 2022 Administrative Reserve Fund budget and the 2022 Backcountry Reserve Fund budget, respectively.

The reserve funds are being accumulated based upon estimated future costs. Actual expenditures vary from those estimates and variations may be material. Therefore, amounts accumulated in the Recreation Reserve Fund, the Administrative Reserve Fund and Backcountry Reserve Fund may not be adequate to meet future needs. If additional funds are needed, we have the right, subject to member delegates' approval, to pass special assessments or delay major repairs and replacements until funds are available.

Note 10 - Solar Contracts

We have entered into three separate 20-year agreements with a solar garden operator for subscription to solar energy production. The agreements expire at various dates during the years ending December 31, 2038 through 2040. The solar gardens are constructed, owned, operated and maintained by the operators. Colorado law allows us to produce solar energy and attribute the share of such production to one or more of our metered premises through credits received from Xcel Energy. Our share of production is assigned a rate of 1 kilowatt per hour (kwh) in effect during the year in which the production month occurs, regulated by the Colorado Public Utilities Commission. Total production capacity from three solar gardens is estimated at approximately 6.2 million kwh. The payments for solar energy depend on the actual production of solar energy from the specific solar garden in which we subscribe times the rate in effect in any given year. During the year ended December 31, 2021, we made payments of $377,937 to the solar garden operator and received $354,199 Xcel Energy credits in return. The agreements allow us to continue our efforts in evaluating alternative energy and conservation opportunities in our community, further our sustainability initiatives and reduce the overall dependence on conventional sources of energy.

Note 11 - Retirement Plan

We sponsor a tax-deferred defined contribution retirement plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all employees meeting the eligibility requirements. The plan provides that employees who have attained the age of 21 and completed either six months of continuous service in a full-time designated benefited position or completed 1,000 hours of service in an eligibility period in a part-time position, may voluntarily contribute part of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year.

During the year ended December 31, 2021, we matched employee voluntary contributions dollar-for-dollar up to 5%, resulting in total contributions to the Plan of $279,195. Employees' voluntary contributions are immediately vested; our contributions vest at 20% per year of participation.

Note 12 - Contingency

The Association may become involved in claims and pending litigation arising in the normal course of operations and carries liability insurance to mitigate against such risks. The Association is currently involved in litigation which management is actively contesting. The outcome, which is currently unknown, could potentially result in an adverse effect on the Association's financial position.

Required Supplementary Information
December 31, 2021

Highlands Ranch Community Association, Inc.

We commissioned a study in 2014 by an independent engineering firm to estimate the remaining useful lives and the replacement costs of the components of recreational common property. Historically, we have commissioned a study every three to five years but were delayed due to COVID-19. During the intervening periods, we adjust the most recent estimate of current replacement costs by applying the inflation index built into the study in addition to obtaining bids for current-year projects. Subsequent to December 31, 2021, a new study was completed. In the 2022 study, the engineering firm assessed the condition of all common area components, estimated replacement costs and remaining lives to enable us to establish adequate reserve funds for the upkeep of the properties. A funding plan has been established using cash flow method, which develops a reserve funding plan where contributions to the reserve fund are designed to offset the variable annual expenditures from the reserve fund, with provisions for inflation and interest rates of 3.5%.

Our policy is to maintain sufficient funds designated for reserves to accommodate a minimum of one year and maximum of two years of capital expenditures calculated using a 3-year average of actual costs incurred. Our budgeted outlook for capital expenditures is based on the schedule of anticipated repair and replacement projects in the reserve study to cover major capital repairs, replacements, maintenance, care, restoration and improvements.

The following table is based on the 2022 study through end of year 2040, adjusted for projected inflation and interest rates built into the study, and presents significant information about the components of the buildings, furniture and equipment, and assets designated for reserves as of December 31, 2021.

	Estimated Remaining	Estimated Future	Assets Designated for Reserves at December 31, 2021		
Major Components	Useful Lives (Years)	Replacement Costs	Administrative Reserve Fund	Recreation Reserve Fund	Backcountry Reserve Fund
Paving	0-20	$ 3,040,310			
Flatwork	0-2	416,535			
Landscaping and Appurtenances	0-30	1,945,759			
Façade	0-30	1,245,245			
Roofing	0-50	4,015,216			
Interior	0-40	21,500,369			
Mechanical	0-40	12,603,107			
Fire and Safety	0-20	722,031			
Amenities	0-40	21,128,482			
Miscellaneous	0-25	12,226,729			
Total		$ 78,843,783	$ 892,033	$ 5,637,717	$ 214,761
Replacement Costs by Location					
Northridge Recreation Center		$ 13,901,683			
Southridge Recreation Center		16,345,397			
Eastridge Recreation Center		27,159,728			
Westridge Recreation Center		12,718,442			
Administrative office		7,070,331			
Backcountry		1,648,202			
Total		$ 78,843,783	$ 892,033	$ 5,637,717	$ 214,761