

Foxwood Hills Property Owners Association

Report on Financial Statements

For the year ended March 31, 2021

Foxwood Hills Property Owners Association

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Independent Auditor's Report

The Board of Directors
Foxwood Hills Property Owners Association
Westminster, South Carolina

We have audited the accompanying financial statements of Foxwood Hills Property Owners Association (the "Association"), which comprise the statement of assets, liabilities and members' equity – modified cash basis as of March 31, 2021, the related statements of revenues, expenses and changes in members' equity – modified cash basis, and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foxwood Hills Property Owners Association as of March 31, 2021, and the results of its operations and its cash flows for the year then ended, in accordance with basis of accounting as described in Note 1.

Basis of Accounting

We draw the attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Required Supplementary Information

Financial statements for Property Owners Associations require that the information on future major repairs and replacements on page 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the 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 about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
July 21, 2022

Foxwood Hills Property Owners Association

Statement of Assets, Liabilities and Members' Equity - Modified Cash Basis

As of March 31, 2021

Assets

Current assets

Cash - undesignated	\$ 464,547
Cash - designated for road replacements	186,185
Cash - designated for pool improvements	8,541
Inventory	5,666
Total current assets	<u>664,939</u>

Building and building improvements	483,417
Other property and equipment	361,621
Land improvements	525,209
Transportation equipment	129,278
Grounds equipment	124,472
Computer software	1,439
Computer equipment	5,048
Furniture and fixtures	262,668
Land	37,305
Less accumulated depreciation	<u>(1,367,915)</u>

Property and equipment, net

Total assets	<u><u>\$ 1,227,481</u></u>
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Liabilities and Members' Equity

Current liabilities

Current portion of note payable	\$ 14,106
Deposits	20,550
Assessments received in advance	245,990
Total current liabilities	<u>280,646</u>

Long term portion of note payable	<u>18,447</u>
Total liabilities	<u>299,093</u>

Members' equity

Designated for road replacements	186,185
Designated for pool improvements	8,541
Undesignated	733,662
Total members' equity	<u>928,388</u>
Total liabilities and members' equity	<u><u>\$ 1,227,481</u></u>

See Notes to Financial Statements

Foxwood Hills Property Owners Association

Statement of Revenues, Expenses and Changes in Members' Equity - Modified Cash Basis

For the year ended March 31, 2021

Revenues

Member dues and assessments	\$ 1,091,430
Food and beverage income	71,988
Other revenue	50,943
Total revenues	<u>1,214,361</u>

Expenses

General and administrative	784,607
Restaurant	115,195
Security	97,218
Maintenance	86,180
Swimming pool	45,720
Comfort stations	25,373
Capital projects	20,826
Depreciation	84,459
Interest	2,630
Loss on disposal of property and equipment	6,000
Total expenses	<u>1,268,208</u>
Excess of expenses over revenues	<u>(53,847)</u>

Members' equity, April 1, 2020

982,235

Members' equity, March 31, 2021

\$ 928,388

See Notes to Financial Statements

Foxwood Hills Property Owners Association

Statement of Cash Flows - Modified Cash Basis

For the year ended March 31, 2021

Operating activities

Excess of expenses over revenues	\$ (53,847)
Adjustments to reconcile excess of expenses over revenues to net cash used for operating activities:	
Depreciation	84,459
Loss on disposal of property and equipment	6,000
Changes in operating assets and liabilities:	
Inventory	(2,094)
Deposits	13,962
Assessments received in advance	(138,084)
Net cash used for operating activities	<u>(89,604)</u>

Investing activities

Purchase of property and equipment	<u>(24,320)</u>
Net cash used for investing activities	<u>(24,320)</u>

Financing activities

Payments on notes payable	<u>(127,237)</u>
Net cash used for financing activities	<u>(127,237)</u>
Net decrease in cash and cash equivalents	(241,161)

Cash and cash equivalents, beginning of year

900,434

Cash and cash equivalents, end of year

\$ 659,273

Reconciliation to statement of assets, liabilities, and members' equity:

Cash - undesignated	\$ 464,547
Cash - designated for road replacements	186,185
Cash - designated for pool improvements	8,541
	<u>\$ 659,273</u>

Supplemental cash flow information

Cash paid for interest	<u>\$ 2,630</u>
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See Notes to Financial Statements

Foxwood Hills Property Owners Association

Notes to Financial Statements

March 31, 2021

Note 1. Summary of Significant Accounting Policies

Organization and nature of business:

Foxwood Hills Property Owners Association (the "Association"), is a not-for-profit corporation, organized pursuant to the laws of the State of South Carolina on April 28, 1978. The Association establishes, owns, maintains, and operates certain recreational facilities and amenities at Foxwood Hills, Westminster, South Carolina, for the use and benefit of the Association's members. The Association consists of approximately 2,200 members who own lots located on approximately 2,600 acres in Oconee County, South Carolina near Westminster, South Carolina.

Basis of accounting:

The Association prepares the financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Association records revenue and expenses on the cash basis of accounting. Assessments received in advance consists of member dues and assessments billed and collected in advance, which are deferred and recognized as revenue in the year in which the related services are rendered. Consequently, the Association has not recognized accounts receivable from homeowners or accounts payable to vendors.

Income taxes:

The Association files its income tax return as a homeowners' association, in accordance with Internal Revenue Code Section 528. Under that Section, the Association is not taxed on uniform assessments to members and other income received from the Association's members solely as a function of their membership in the Association. The Association is taxed at the federal rate of 30% on its investment income and other nonexempt function income. The Association has determined that it does not have any material unrecognized tax benefits or obligations as of March 31, 2021.

Cash and cash equivalents:

The Association considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentration of credit risk:

The Association's cash and cash equivalents are held at federally insured commercial banks. The Federal Deposit Insurance Corporation ("FDIC") insures the holders of accounts at participating commercial banks for up to \$250,000. At times during the year, the Association had amounts on deposit in excess of FDIC limits.

Inventory:

The Association values its inventory, which consists of alcohol and food, at the lower of cost or net realizable value determined on a first-in, first-out basis, or market.

Foxwood Hills Property Owners Association

Notes to Financial Statements

March 31, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Property and equipment:

Property and equipment are carried at cost if purchased, and property and equipment contributed to the Association is recorded at estimated fair value at the date of donation. The Association generally capitalizes assets with a cost of \$1,000 or more. The Association's policy is to evaluate property and equipment for impairment annually.

The Association has established its capitalization policy for purchased or contributed real property in accordance with prevalent industry practice:

Real property that is not directly associated with the lots, such as recreational facilities, are generally capitalized only if the Association has title and can sell the property and retain the proceeds or use the property to generate significant cash flows from members or non-members on the basis of usage.

The Association is responsible for preserving and maintaining the common property.

Improvements and replacements of property and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statement of revenues, expenses and changes in members' equity.

Depreciation is provided over the estimated useful lives of the related assets and is computed using the straight-line method as follows:

<u>Description</u>	<u>Estimated useful lives</u>
Building and building improvements	3 - 40 years
Other property and equipment	3 - 40 years
Land improvements	5 - 40 years
Transportation equipment	3 - 5 years
Grounds equipment	5 - 7 years
Computer software	5 years
Computer equipment	5 years
Furniture and fixtures	5 - 15 years

Member assessments:

Association members are subject to annual and special assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Member assessments in the statement of revenue, expenses and changes in members' equity have been allocated between undesignated and designated equity based upon the Association's budgeted reserve requirements. The Association retains excess operating funds at the end of the year, if any, for use in future periods.

In addition to annual assessments, the Board of Directors has the authority to levy interest, late fees, and collection fees for overdue and unpaid assessments.

Foxwood Hills Property Owners Association

Notes to Financial Statements

March 31, 2021

Note 1. Summary of Significant Accounting Policies, Continued

Member assessments, continued:

Association members are subject to annual assessments as determined by the Board of Directors 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. For 2021, the assessments per unit were as follows:

POA dues and assessments	\$	597
Partial lots dues and assessments		269
Mt. Bay dues and assessments		416

Revenues for member assessments are recognized when cash is received, except for revenues received in advance.

Use of estimates:

The preparation of financial statements in conformity with the modified cash method of accounting 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 reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events:

These financial statements have not been updated for subsequent events occurring after July 21, 2022, which is the date these financial statements were available to be issued.

Note 2. Future Major Repairs and Replacements

The Association has established funds for the accumulation of reserves for future major repairs and replacements in accordance with its by-laws. The cash in the funds are maintained in separate accounts. These funds have been designated by the Association's Board of Directors as a pool improvement reserve account and road replacement reserve account with balances of \$8,541 and \$186,185, respectively, at March 31, 2021. It is the Association's policy to retain interest earned on such funds in the respective funds.

Foxwood Hills Property Owners Association

Notes to Financial Statements

March 31, 2021

Note 2. Future Major Repairs and Replacements, Continued

A reserve study was conducted in July 2015 to estimate the remaining useful lives and the replacement costs of the common property components. The study utilized various publications written by the R.S. Means Company and construction related experience of Ray Engineering to calculate replacement costs. The study assumed an inflation rate of 3.0% and a yield on reserves of .05%. The Association is attempting to fund such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously designated for future major repairs and replacements. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future major repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association has the right, subject to the Board of Directors' approval, to increase regular assessments, levy special assessments, or delay major repairs and replacements until funds are available.

Note 3. Retirement Plan

The Association offers a Simple IRA retirement plan to its employees. All employees are eligible to elect to participate in the plan. The Association can make a discretionary match of up to 3% of pay contributed by an employee. The Association did not make an employer's match in 2021.

Note 4. Long-Term Debt

Long-term debt consists of the following at March 31:

Note payable in monthly installments of \$1,085 through September 5, 2023. The note is collateralized by a tractor.	\$ 32,553
Less current portion	<u>14,106</u>
Long-term portion	<u><u>\$ 18,447</u></u>

Principal maturities for the years following March 31, 2021, are as follows:

2022	\$ 14,106
2023	13,021
2024	<u>5,426</u>
	<u><u>\$ 32,553</u></u>

Foxwood Hills Property Owners Association

Notes to Financial Statements

March 31, 2021

Note 5. Contingencies

The Association is involved in legal proceedings which arise periodically in the normal course of business. While the result of such matters cannot be predicted with certainty, management does not expect any such matter to have a material adverse effect on the Association's financial statements.

Note 6. Commitments

In June 2020, the Association entered into a fiscal services agreement. The agreement commenced on October 1, 2020 and has a term through March 31, 2022. The agreement renews for additional one year terms unless either party terminates in writing. The Association will pay \$64,800 per year in monthly installments of \$5,400 for these services. The annual fee will increase by the Consumer Price Index on the anniversary day of the agreement.

Note 7. Subsequent Event

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. It is unknown the extent to which COVID-19 may spread, may have a destabilizing effect on financial and economic activity and may increasingly have the potential to negatively impact the Association and the U.S. economy. These conditions could adversely affect the Association, its financial condition, and results of operations. The extent of the adverse impact of the COVID-19 outbreak on the Association cannot be predicted at this time.

In May 2020, the Association filed for Chapter 11 bankruptcy to reorganize to address and correct defects in the documents governing the lot owner fees and assessments due to the Association. The goal of the Chapter 11 case is to make the provisions for payment of lot owner fees and assessments to the Association fair and equitable, so that all lot owners fairly share in the costs of maintaining the community and to place the Association on sound financial footing.

In June 2021, the Association filed an amendment to the amended and restated Chapter 11 plan of reorganization for provisions to settle damages with Community Association Management Services in the amount of \$50,000. The \$50,000 will be paid in equal monthly installments over a period of 18 months. The amendment also included provisions to settle a claim with Total Environmental Solutions, Inc. in the amount of \$60,000. The Association will set-off \$26,694 in costs it incurred in repairing roads damaged by Total Environmental Solutions, Inc. and the Association will pay \$33,306. The \$33,306 will be paid in three equal installments over one year from the approval date of the amendment.

In December 2021, the aforementioned Chapter 11 reorganization was deemed fully administered and closed by the United States Bankruptcy Court, District of South Carolina.

SUPPLEMENTARY INFORMATION

Foxwood Hills Property Owners Association

Schedule of Future Major Repairs and Replacement Reserves

March 31, 2021

The Association's Board of Directors commissioned a Level II updated study in July 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The Board of Directors will review and update this study periodically.

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

Component	Estimated Remaining Useful Life (Years)	Estimated Future Replacement Costs
Clubhouse	1 to 13	\$ 724,957
Comfort stations	1 to 13	177,657
Landscaping	1 to 11	43,085
Picnic pavilion	4 to 12	17,273
Maintenance equipment	4 to 12	304,635
Swimming pool	1 to 9	435,451
Main roads	1	368,962
Maintenance building	5 to 13	12,551
Equipment	3	26,095
Site fencing	3 to 9	14,314
Drainage	4 to 9	10,157
Sidewalk	3 to 7	6,933
Sports courts	6 to 13	15,897
Tennis courts	2 to 9	45,195
Signage	5	13,842
Vehicles	6 to 12	78,205
		<u>\$ 2,295,209</u>
<i>Replacement fund cash and cash equivalents</i>		<u>\$ 194,726</u>
<i>Reconciliation to balance sheet:</i>		
Cash - designated for road replacements		\$ 186,185
Cash - designated for pool improvements		8,541
		<u>\$ 194,726</u>