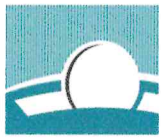


**HOLLY FOREST ASSOCIATION, INC.**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**HOLLY FOREST ASSOCIATION, INC.  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITOR'S REPORT</b>	1-3
<b>FINANCIAL STATEMENTS</b>	
Balance Sheet	4
Statement of Revenues, Expenses, and Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to the Financial Statements	7-12
<b>SUPPLEMENTARY INFORMATION</b>	
Supplementary Information on Future Major Repairs and Replacements	13



# CARLAND & ANDERSEN INC.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Holly Forest Association, Inc.  
Sapphire, North Carolina

### *Opinion*

We have audited the accompanying financial statements of Holly Forest Association, Inc. (the Association), which comprise the balance sheet – modified cash basis as of December 31, 2021, and the related statement of revenues, expenses, and changes in fund balance, and cash flows – modified cash basis, 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 Holly Forest 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 the basis of accounting as described in Note B.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Holly Forest Association, Inc. 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.

### *Basis of Accounting*

We draw attention to Note B 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.

### *Responsibilities of Management 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 B. 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 financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 generally accepted auditing standards 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 generally accepted auditing standards, 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 Holly Forest 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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Holly Forest Association Inc.'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 supplementary information on future major repairs and replacements on page 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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 Holly Forest Association Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 29, 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.



Brevard, North Carolina  
July 28, 2022

## **FINANCIAL STATEMENTS**

**HOLLY FOREST ASSOCIATION, INC.**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**DECEMBER 31, 2021**

(With Comparative Amounts for December 31, 2020)

<b>ASSETS</b>	<b>Operating and ECC Fund</b>	<b>Replacement Fund</b>	<b>2021 Total</b>	<b>2020 Total</b>
Cash and equivalents	\$ 521,524	\$ 366,380	\$ 887,904	\$ 1,145,217
Interfund receivable		128,103	128,103	141,270
Prepaid expenses	61,012		61,012	3,556
Assets held for resale	10,583		10,583	10,583
Land and improvements	163,703		163,703	163,703
<b>TOTAL ASSETS</b>	<b>\$ 756,822</b>	<b>\$ 494,483</b>	<b>\$ 1,251,305</b>	<b>\$ 1,464,329</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Accounts payable	\$ 22,761	\$ 12,800	\$ 35,561	\$ 21,236
Assessments paid in advance	353,264	143,547	496,811	398,658
Interfund payable	128,103		128,103	141,270
Deposits	59,240		59,240	42,715
<b>TOTAL LIABILITIES</b>	<b>\$ 563,368</b>	<b>\$ 156,347</b>	<b>\$ 719,715</b>	<b>\$ 603,879</b>
Contributed capital	\$ 177,124		\$ 177,124	\$ 177,124
Fund balance	16,330	\$ 338,136	354,466	683,326
<b>TOTAL FUND BALANCE</b>	<b>\$ 193,454</b>	<b>\$ 338,136</b>	<b>\$ 531,590</b>	<b>\$ 860,450</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 756,822</b>	<b>\$ 494,483</b>	<b>\$ 1,251,305</b>	<b>\$ 1,464,329</b>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**HOLLY FOREST ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

(With Comparative Amounts for the Year Ended December 31, 2020)

REVENUES	Operating and ECC Fund	Replacement Fund	2021 Total	2020 Total
Member assessments	\$ 491,170	\$ 274,274	\$ 765,444	\$ 777,511
Member interest and penalties	10,282		10,282	20,108
Investment income	208	415	623	2,210
Service fees				3,675
Review fees	9,325		9,325	2,710
Impact fees	4,000	17,600	21,600	12,650
ECC fines		2,025	2,025	400
Miscellaneous revenue	5,825		5,825	
Tower Road contribution				6,768
<b>TOTAL REVENUE</b>	<b>\$ 520,810</b>	<b>\$ 294,314</b>	<b>\$ 815,124</b>	<b>\$ 826,032</b>
<b>EXPENSES</b>				
Administrative expense	\$ 24,293	\$ 27	\$ 24,320	\$ 28,396
Contract services	30,874		30,874	16,943
ECC compliance and architectural review expense	13,690		13,690	11,973
Grounds maintenance	179,076		179,076	153,594
Insurance	6,483		6,483	5,883
Management fee	72,723		72,723	70,608
Professional fees	50,273		50,273	23,860
Property taxes	370		370	333
Road maintenance		492,604	492,604	72,092
Security	219,364		219,364	217,735
Snow removal	27,571		27,571	39,934
Tray's Island Road contribution		20,891	20,891	18,166
Utilities	5,745		5,745	5,301
<b>TOTAL EXPENSES</b>	<b>\$ 630,462</b>	<b>\$ 513,522</b>	<b>\$ 1,143,984</b>	<b>\$ 664,818</b>
<b>REVENUES OVER (UNDER) EXPENSES</b>	<b>\$ (109,652)</b>	<b>\$ (219,208)</b>	<b>\$ (328,860)</b>	<b>\$ 161,214</b>
<b>BEGINNING FUND BALANCES</b>	<b>125,982</b>	<b>557,344</b>	<b>683,326</b>	<b>522,112</b>
<b>ENDING FUND BALANCES</b>	<b>\$ 16,330</b>	<b>\$ 338,136</b>	<b>\$ 354,466</b>	<b>\$ 683,326</b>

The accompanying Notes to the Financial Statements are an integral part of this statement.



**HOLLY FOREST ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

(With Comparative Amounts for the Year Ended December 31, 2020)

	<u>Operating and ECC Fund</u>	<u>Replacement Fund</u>	<u>2021 Total</u>	<u>2020 Total</u>
<b>Cash flows from operating activities:</b>				
Revenues over (under) expenses	\$ (109,652)	\$ (219,208)	\$ (328,860)	\$ 161,214
<b>Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:</b>				
(Increase) decrease in:				
Interfund receivable		13,167	13,167	47,250
Prepaid expenses	(57,456)		(57,456)	56,876
Increase (decrease) in:				
Accounts payable	6,073	8,252	14,325	6,345
Assessments paid in advance	95,584	2,569	98,153	45,938
Interfund payable	(13,167)		(13,167)	(47,250)
Deposits	16,525		16,525	(1,620)
<b>Net cash provided (used) by operating activities</b>	<u>\$ (62,093)</u>	<u>\$ (195,220)</u>	<u>\$ (257,313)</u>	<u>\$ 268,753</u>
<b>Net increase (decrease) in cash</b>	<u>\$ (62,093)</u>	<u>\$ (195,220)</u>	<u>\$ (257,313)</u>	<u>\$ 268,753</u>
Cash, beginning of year	<u>583,617</u>	<u>561,600</u>	<u>1,145,217</u>	<u>876,464</u>
Cash, end of year	<u><u>\$ 521,524</u></u>	<u><u>\$ 366,380</u></u>	<u><u>\$ 887,904</u></u>	<u><u>\$ 1,145,217</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**HOLLY FOREST ASSOCIATION, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note A - Nature of Organization**

Holly Forest Association, Inc. (the Association) was incorporated under Chapter 55A of the General Statutes of North Carolina on August 4, 1972, as a non-profit corporation for the purposes of maintaining and operating common areas owned by the Association at Sapphire, North Carolina. There are approximately 1,235 single family residential lots and 125 plus deeded acres of common property in the Association.

**Note B - Summary of Significant Accounting Policies**

**FASB Accounting Standards Codification**

In June 2009, the Financial Accounting Standards Board (FASB) issued a statement titled *The Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles* (ASC). This standard establishes FASB ASC as the source of authoritative United States accounting and reporting standards for nongovernmental entities. References made to generally accepted accounting principles (GAAP) in these financial statements refer to the ASC.

**Financial Statement Presentation**

Beginning with the 2019 year, the Board and management of the Association elected to change financial reporting from the accrual basis of accounting to the modified cash basis of accounting. Therefore, the accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. For the Association, the modified cash basis differs from generally accepted accounting principles because the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statements are not included in the financial statements.

The Association presents the financial statements as separate funds based on the Association's different funding policies for operations and capital improvements.

**HOLLY FOREST ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note B - Summary of Significant Accounting Policies (continued)**

**FASB ASC 606 Accounting Guidance**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, *Revenue from Contracts with Customers*, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, *Real Estate – Common Interest Realty Associations, Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. The new Topic 606 is referred to as the new guidance. The requirements of the new guidance were adopted as of January 1, 2019, however under the modified cash basis of accounting no retrospective adjustment was required to the Association's recognition of revenue.

**Fund Accounting**

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

**Operating and ECC 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 paving and maintenance of the Holly Forest roads and maintenance and repairs to the culverts, bridges, and other common areas.

**Comparative Information**

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

**HOLLY FOREST ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note B - Summary of Significant Accounting Policies (continued)**

**Estimates**

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

**Cash and Equivalents**

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of one year or less to be cash equivalents. In addition, cash held at year end for a specific purpose is reflected separately on the Balance Sheet.

**Member Assessments**

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future major repairs, and replacements. Prepaid assessments applicable to future periods are shown as a current liability and are recognized as revenue in the period earned.

The Association establishes assessment rates necessary to cover common expenses as disclosed in the Association's governing documents. For the year ended December 31, 2021 assessments were \$715 per lot. Each year the Board of Directors allocates a portion of the annual assessments to the Replacement Fund to cover the cost of anticipated capital improvements and to build a reserve for future major repairs and replacements.

The governing documents of the Association provide that unpaid assessments shall constitute a lien on the delinquent lot or lots when filed. At December 31, 2021, the Association had delinquent assessments. It is the opinion of the Board of Directors that it is uncertain if the Association will ultimately prevail against homeowners with delinquent assessments, in accordance with the modified cash basis of accounting, no amounts are reported for delinquent accounts.

**Assets Held for Resale**

Beginning in 2012 the Association began recording lots acquired through foreclosure or quit claim deed. These properties are reported as assets held for resale.

**HOLLY FOREST ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note B - Summary of Significant Accounting Policies (continued)**

**Land and Improvements**

The Association capitalizes all land and improvements to which it has title or other evidence of ownership with the exception of real property directly associated with lot ownership. Prior to 1992, the Association recorded real property donated by the developer at its fair market value. Subsequent to January 1, 1992, all real properties donated by the developer (16 parcels of land in 1993) have not been recognized due to changes in accounting practices. Land and improvements acquired by the Association are recorded at cost and depreciated over estimated useful lives using the straight-line method.

**Income Taxes**

The Association is incorporated as a non-profit organization and is exempt from federal income taxes under section 501(c)(4) of the Internal Revenue Code, the Association is also exempt from state income taxes under related state law. Accordingly, the accompanying financial statements do not reflect a provision or liability for federal or state income taxes. The Association has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2021 and 2020. Years ended on or after December 31, 2018, remain subject to examination by federal and state tax authorities.

**Note C – Future Major Repairs and Replacements**

The governing documents for the Association provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors has chosen to establish a Replacement Fund to accumulate assets for the estimated cost of future major repairs and replacements.

In a prior period, a road survey was conducted to estimate the remaining useful lives and the replacement costs of the common property. Funds are being accumulated in the replacement fund based on estimated costs for the repair and replacement of the roads and other common property estimated at the date of the study. Estimates of current replacement costs do not take into account the effects of inflation. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement funds may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to the Board's approval, to increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available.

**HOLLY FOREST ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note D – Assets Held for Resale**

As of December 31, 2021 and 2020 the Association held several real estate lots that had been acquired either through foreclosure or by quit claim deed. Under ASC 310-40 these assets held for sale are to be recorded at fair value less estimated costs to sell the property, upon sale any gain or loss is recognized on the difference between that value and the value of delinquent assessments and any debt assumed. Management has estimated the fair value of these real estate lots to be equal to the cost of acquiring the property plus the delinquent assessments outstanding.

At December 31, 2021 and 2020 one real estate lot was reported as assets held for resale with an aggregate cost of \$10,583.

**Note E – Land and Improvements**

Land and improvements capitalized at December 31, 2021 and 2020, consist of the following:

	<b>2021</b>	<b>2020</b>
Common Area (Land)	<u>\$ 163,703</u>	<u>\$ 163,703</u>

**Note F – Management Fees**

The Association is party to an annual agreement which was effective January 1, 2019 extending through December 31, 2021, with Capital Vacations Resort Management. The agreement was renewed on June 22, 2021 to extend the terms through December 31, 2026. The duties to be performed under the agreement are to supervise and oversee performance of all common area maintenance, to collect all assessments, to contract services, to pay for all goods and services, and to prepare annual budgets and maintain a comprehensive system of financial records and accounts, and to provide certain reports to the Board of Directors. The agreement may be cancelled by either party with 60-day written notice. The association paid annual management fees of \$72,723 and \$70,608 for the years ended December 31, 2021 and 2020, respectively.

**Note G – Concentration of Credit Risk on Financial Instruments**

The Association from time to time maintains cash balances in one financial institution that may exceed the \$250,000 amount insured by the Federal Deposit Insurance Corporation (FDIC). The uninsured balances at December 31, 2021 and 2020 were \$373,491 and \$617,182, respectively.

**HOLLY FOREST ASSOCIATION, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**Note H – Risk Management**

The Association is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Association carries commercial insurance for risks related to director liability, and property and casualty insurance for risks related to theft, fire, or other natural disasters.

**Note I – Subsequent Events**

Subsequent events have been evaluated through July 28, 2022 which is the date the financial statements were available to be issued.

## **SUPPLEMENTARY INFORMATION**



**HOLLY FOREST ASSOCIATION, INC.**  
**SUPPLEMENTARY INFORMATION ON FUTURE**  
**MAJOR REPAIRS AND REPLACEMENTS**

A road study was conducted to estimate the repair and resurfacing of the common property roads. The study was adopted by the Board of Directors on July 15, 1997, revised on May 20, 2002, and was updated in 2019. Funds are being accumulated in the replacement fund based on the following criteria:

Estimated life of project	10 years
Total estimated cost of project	\$ 3,300,000
Number of residential lots	1,235
Average annual cost of project	\$ 300,000
Balance of replacement fund at 12/31/21	\$ 338,136

A substantial increase in paving cost experienced during the 2021 year will require reevaluation of annual estimates and possible modification to the paving process.