

WINDROCK

— LAND CO. —

ESTABLISHED 1872

ANNUAL REPORT

2020

WINDROCK LAND COMPANY

Water's Edge
614 Mabry Hood Road, Suite 301
Knoxville, TN 37932

2020

DIRECTORS

THOMAS M. AYRES.....Knoxville, Tennessee
ALLEN J. BUSH.....Blytheville, Arkansas
ANDREW J. BUSH Sevierville, Tennessee
MILES E. CULLOM, JR.....Knoxville, Tennessee
LAWRENCE M. GILPIN St. Helena, California
LEWIS S. HOWARD, JR.....Knoxville, Tennessee
GEORGE A. ROZANSKI.....Columbia, Maryland

OFFICERS

LEWIS S. HOWARD, JR.
President Knoxville, Tennessee

WILLIAM S. LYON, III,
Executive Vice-President Knoxville, Tennessee

CLAUDIA P. DEPEW,
Treasurer Maryville, Tennessee

WANDA H. TILLER,
Secretary..... Knoxville, Tennessee

WINDROCK

— LAND CO. —

ESTABLISHED 1872

March 8, 2021

To Our Shareholders:

We are pleased to report that both revenues and earnings increased in 2020. Revenues (excluding Unrealized Investment Gains) totaled \$7,527,000, an increase of \$751,427 over 2019 revenues of \$6,775,573. Earnings increased to \$2,711,097 or \$29.04 per share from \$2,365,517 or \$24.74 per share reported last year. Excluding Unrealized Investment Gain and their related income tax effect, earnings were \$25.90 per share vs. \$13.12 per share last year. Dividends of \$12.00 per share were declared and paid to shareholders.

Effective June 1, 2020, the Company name was changed from The Coal Creek Company to Windrock Land Company and the stock now trades under the symbol WRLC. The new name better reflects the ongoing operations of the Company while also paying tribute to the history of the area which has sustained the Company for 149 years. Later this year, the Company will begin utilizing a third-party stock transfer agent which will include book entry (electronic) stock vs paper certificates. This will eliminate current in-house stock transfer activities, facilitate the ease of stock transfers and allow for electronic shareholder voting.

In late 2020, the Company acquired the operations of the local office of National Land Realty, a national real estate brokerage company specializing in farm, ranch, hunting, wildlife, timber and recreational land. This acquisition complements the services provided through the Southeastern Forest Management division and further expands and diversifies our revenue stream.

Although the COVID-19 pandemic caused the closure of our general store, campground and cabin rentals for six weeks along with cancellation of the Spring Shindig, Windrock Park recovered quickly as the trails remained open. Land use permit sales increased 38%, campground related revenues increased 13% and general store revenues increased 26%. Five (5) additional rental cabins are being completed bringing our cabin inventory to 35 units. Visitors to Windrock Park, including Windrock Bike Park, continue to increase annually.

Revenues from timber operations were \$894,323 compared to \$1,240,214 in 2019 as timber harvesting declined slightly and prices remained somewhat depressed. The 10-year timber inventory was completed in mid-2020 and a Forest Management Plan adopted for 2021-2030. A summary of the timber inventory compared to the prior 10-year inventory is as follows:

Year	Timber (Board Feet)	Annual Growth	Forested Acres
2020	227,847,633'	5,741,761' (2.5%)	65,976
2010	210,828,011'	5,489,062' (2.6%)	61,132

The predominant timber species are: Yellow poplar (33.8%), Chestnut oak (19.2%), Red oak (8.2%), White oak (7.5%), Hickory (5.9%) and Red maple (5.5%). Based on current timber prices, the estimated value of the Company's standing timber inventory is in excess of \$60,000,000.00. The Company will continue to harvest below the growth rate to encourage the health and value of the timber inventory.

The Company acquired approximately 63 acres of property adjoining the Windrock Hollow event area in December. The property contains an existing oil well and a significant amount of timber. This purchase will provide timber income, additional trail expansion and provide a buffer from potential commercial development on adjoining property owned by third parties.

The current financial condition of the Company remains strong despite the brief economic downturn sparked by the COVID-19 related shutdowns. The Company acquired and retired 1,723 shares of common stock in 2020 at an average price of \$302.63 per share.

At a meeting held February 18, 2021 the Board of Directors declared a dividend of \$3.00 per share and a special dividend of \$2.00 per share, both payable March 15 to shareholders of record February 28.

The annual shareholders' meeting will be held May 20, 2021 at the offices of the Company. We welcome shareholder attendance and participation. A further notice of such meeting and proxy for use by those shareholders unable to attend will be mailed in April.

Audited consolidated financial statements of the company for years ended December 31, 2020 and 2019 will follow.

Sincerely,

Lewis S. Howard, Jr.
President

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

Knoxville, Tennessee

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019





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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Windrock Land Company and Subsidiaries
Knoxville, Tennessee

We have audited the accompanying consolidated financial statements of Windrock Land Company and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from 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 Company'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 Company'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 Windrock Land Company and Subsidiaries as of December 31, 2020, 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.

Other Matter

The financial statements of the Company, as of and for the year ended December 31, 2019, were audited by other auditors, whose report, dated February 14, 2020, expressed an unmodified opinion on those statements.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
February 10, 2021



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Members of the Tennessee Society
Of Certified Public Accountants

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

	As of December 31,	<u>2020</u>	<u>2019</u>
ASSETS			
CURRENT ASSETS			
Cash	\$	910,146	\$ 362,747
Accounts Receivable		130,914	60,095
Refundable Income Taxes		210,050	100,075
Prepaid Expenses		216,669	0
Inventories		<u>152,692</u>	<u>112,833</u>
Total Current Assets		<u>1,620,471</u>	<u>635,750</u>
PROPERTY, PLANT AND EQUIPMENT			
Land and Land Improvements		6,948,407	6,818,369
Building and Building Improvements		5,101,508	5,074,167
Other Equipment		<u>1,938,499</u>	<u>1,384,940</u>
		13,988,414	13,277,476
Less: Accumulated Depreciation		<u>4,980,282</u>	<u>4,513,741</u>
		9,008,132	8,763,735
Construction In Progress		<u>301,851</u>	<u>0</u>
Property, Plant and Equipment, Net		<u>9,309,983</u>	<u>8,763,735</u>
OTHER NONCURRENT ASSETS			
Marketable Equity Securities		6,984,105	7,223,301
Intangible Assets, Net		97,222	0
Deposits		<u>17,633</u>	<u>2,190</u>
Total Other Noncurrent Assets		<u>7,098,960</u>	<u>7,225,491</u>
Total Noncurrent Assets		<u>16,408,943</u>	<u>15,989,226</u>
TOTAL ASSETS	\$	<u>18,029,414</u>	\$ <u>16,624,976</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Independent Auditor's Report.

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS (Continued)

	As of December 31,	<u>2020</u>	<u>2019</u>
LIABILITIES AND STOCKHOLDER'S EQUITY			
CURRENT LIABILITIES			
Accounts Payable	\$	90,269	\$ 80,444
Lines of Credit		800,337	1,132,856
Property Taxes Payable		338,071	240,959
Other Accrued Expenses		178,521	95,943
Deferred Revenue		992,848	679,390
Current Portion of Long-Term Debt		<u>29,230</u>	<u>28,085</u>
Total Current Liabilities		2,429,276	2,257,677
LONG-TERM LIABILITIES			
Long-Term Debt, Less Current Portion		576,466	605,315
Deferred Income Taxes		<u>1,245,890</u>	<u>1,053,764</u>
Total Liabilities		<u>4,251,632</u>	<u>3,916,756</u>
STOCKHOLDERS' EQUITY			
Common Stock, No Par Value, \$10 Stated Value; 500,000 Shares Authorized, 93,328 and 95,051 Shares Issued and Outstanding at December 31, 2020 and 2019, Respectively		933,280	950,510
Capital in Excess of Stated Value		1,379,252	1,404,715
Retained Earnings		<u>11,465,250</u>	<u>10,352,995</u>
Total Stockholders' Equity		<u>13,777,782</u>	<u>12,708,220</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	<u>18,029,414</u>	\$ <u>16,624,976</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Independent Auditor's Report.

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended December 31,	<u>2020</u>	<u>2019</u>
REVENUES			
Rental Income	\$	1,739,514	\$ 1,575,877
Recreational Income		2,785,131	2,351,130
General Store Income		1,107,599	874,228
Timber Sales		894,323	1,240,214
Gas and Oil Royalties		280,573	334,117
Wind Power Site Lease Income		79,885	85,382
Tower Site Lease Income		583,201	217,435
Miscellaneous Revenue		<u>56,774</u>	<u>97,190</u>
Total Revenues		7,527,000	6,775,573
OPERATING EXPENSES			
		<u>5,199,810</u>	<u>5,253,299</u>
OPERATING INCOME			
		<u>2,327,190</u>	<u>1,522,274</u>
OTHER INCOME (EXPENSE)			
Other Income		365,231	0
Interest and Dividend Income		182,188	237,476
Interest Expense		(53,187)	(88,656)
Net Realized Gain (Loss) on Marketable Equity Securities		324,398	(25,995)
Net Unrealized Gain on Marketable Equity Securities		<u>397,658</u>	<u>1,504,967</u>
Total Other Income (Expense)		1,216,288	1,627,792
NET INCOME BEFORE INCOME TAXES			
		<u>3,543,478</u>	<u>3,150,066</u>
PROVISION FOR INCOME TAX EXPENSE			
Current		640,255	277,129
Deferred		<u>192,126</u>	<u>507,420</u>
Net Provision for Income Tax		832,381	784,549
NET INCOME			
	\$	<u>2,711,097</u>	\$ <u>2,365,517</u>
NET INCOME PER SHARE			
	\$	<u>29.04</u>	\$ <u>24.74</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Independent Auditor's Report.

**WINDROCK LAND COMPANY
SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2019 and 2020

	Common Stock	Capital in Excess of Stated Value	Retained Earning	Accumulated Other Comprehensive Income	Total
BALANCES, January 1, 2019	\$ 959,960	\$ 1,417,412	\$ 7,921,541	\$ 1,502,278	\$ 11,801,191
Adoption of ASU 2016-01	0	0	1,502,278	(1,502,278)	0
Purchase and Retirement of Common Stock	(9,450)	(13,955)	(289,295)	0	(312,700)
Stock-based Compensation Expense	0	1,258	0	0	1,258
Net Income	0	0	2,365,517	0	2,365,517
Dividends Paid	0	0	(1,147,046)	0	(1,147,046)
BALANCES, December 31, 2019	950,510	1,404,715	10,352,995	0	12,708,220
Purchase and Retirement of Common Stock	(17,230)	(25,463)	(478,732)	0	(521,425)
Net Income	0	0	2,711,097	0	2,711,097
Dividends Paid	0	0	(1,120,110)	0	(1,120,110)
BALANCES, December 31, 2020	<u>\$ 933,280</u>	<u>\$ 1,379,252</u>	<u>\$ 11,465,250</u>	<u>\$ 0</u>	<u>\$ 13,777,782</u>

The accompanying notes are an integral part of these consolidated financial statements.
See Independent Auditor's Report.

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	\$	2,711,097	\$ 2,365,517
Adjustments to Reconcile Net Income to Net Cash			
Provided by (Used in) Operating Activities:			
Depreciation and Amortization		552,569	543,679
Net Realized (Gain) Loss on Sales of Marketable			
Equity Securities		(324,398)	25,995
Net Unrealized Gain on Sales of Marketable		(397,658)	(1,504,967)
(Gain) Loss on Sales of Equipment		(14,104)	11,455
Deferred Income Tax Expense		192,126	507,420
Stock-based Compensation Expense		0	1,258
Forgiveness of Small Business Administration Loan		(363,200)	0
Changes in Operating Assets and Liabilities:			
Accounts Receivable		(70,819)	3,143
Refundable Income Taxes		(109,975)	(40,996)
Prepaid Expenses		(216,669)	0
Inventories		(39,859)	(7,899)
Accounts Payable and Other Accrued Expenses		76,960	(81,266)
Property Taxes Payable		97,112	(16,576)
Deferred Revenue		313,458	114,950
Net Cash Provided by Operating Activities		<u>2,406,640</u>	<u>1,921,713</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from Sale of Property, Plant and Equipment		83,904	52,200
Purchases of Property, Plant and Equipment		(1,165,839)	(545,100)
Purchases of Intangible Assets		(100,000)	0
Proceeds from Sales of Marketable Equity Securities		2,395,462	1,961,256
Purchases of Marketable Equity Securities		(1,434,210)	(1,352,795)
Net Cash Provided by (Used in) Investing Activities		<u>(220,683)</u>	<u>115,561</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Net (Repayment) Borrowings on Lines of Credit		(332,519)	(585,550)
Principal Payments on Long-Term Debt		(27,704)	(26,674)
Proceeds Received from Small Business Administration Loan		363,200	0
Purchase and Retirement of Common Stock		(521,425)	(312,700)
Dividends Paid		(1,120,110)	(1,147,046)
Net Cash Used in Financing Activities		<u>(1,638,558)</u>	<u>(2,071,970)</u>
NET INCREASE (DECREASE) IN CASH		547,399	(34,696)
CASH AT BEGINNING OF YEAR		<u>362,747</u>	<u>397,443</u>
CASH AT END OF YEAR	\$	<u><u>910,146</u></u>	\$ <u><u>362,747</u></u>
Supplemental Cash Flow Disclosures			
Income Taxes Paid	\$	777,500	\$ 318,125
Interest Paid	\$	53,187	\$ 88,656

The accompanying notes are an integral part of these financial statements.
See Independent Auditor's Report.

**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

NOTES TO FINANCIAL STATEMENTS

December 31, 2020 and 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The accompanying consolidated financial statements include the accounts of Windrock Land Company and its wholly-owned subsidiaries, Windrock Resources, Inc. and Windrock Park, LLC (collectively referred to as the “Company”). Windrock Park, LLC is wholly owned by Windrock Resources, Inc. All intercompany transactions and balances have been eliminated.

Description of Business – The Company owns over 73,000 acres in East Tennessee and generates revenue from its land holdings. The Company has agreements with customers for gas and oil production and has agreements with other customers for timber harvesting. The Company generates income from these customers based on a percentage of revenues derived from the customer’s operations. The Company also has operating lease agreements with certain customers for communication tower and wind power sites. Additionally, the Company provides outdoor recreational opportunities and the operation of rental cabins, a campground, a general store and over 300 miles of off-road trails for ATVs and other off-road vehicles.

Revenue Recognition – The Company recognizes revenue when it satisfies performance obligations as evidenced by the transfer of products or services to customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those products or services.

In accordance with contract terms, revenue for timber sales, gas and oil royalties is recognized in the period product is harvested or produced by the customer. The Company has recreational fee revenue for ATV and other off-road vehicles through land usage permits that are issued for periods of up to one year. The revenue generated from these fees are recognized on a straight- line basis over the period of the land usage permit. Rental income is primarily derived from the short-term rental of cabins, campsites and ATV vehicles and is recognized over the rental period. The Company owns a general store and has revenues from the sale of goods, which are recognized at the time of the sale. Revenue from the operating lease agreements for communication tower and wind power sites is recognized based on the lease payments received, which approximates the lease payments recognized on a straight-line basis over the term of the lease.

Accounts Receivable – Accounts receivable are generated from the production of gas and oil by customers or contractors who harvest timber on the Company’s property. Accounts are determined to be past due based on contractual terms. It is the Company’s policy not to require collateral on accounts receivable. Accounts are charged to bad debt expense as they are determined to be uncollectible based upon a review of aging and collections. Credit losses, when realized, have historically not been significant.

Deferred Revenue – The Company routinely receives advance gas and oil royalty payments. The Company also receives upfront payments for ATV and other off-road vehicles for land usage permits for use up to one year. The amounts for which payments received have not yet been recognized in revenue have been recorded as deferred revenue in the accompanying consolidated balance sheets.

Inventories – Inventories consist primarily of clothing, food products and supplies in the Company’s retail general store and are valued at the lower of cost or net realizable value using the average cost method.

Property, Plant and Equipment – Property, plant and equipment is recorded at cost. Maintenance and repairs are expensed as incurred, and replacements and improvements are capitalized. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets.

See Independent Auditor’s Report.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets – Finite-lived intangible assets consist primarily of a real estate marketing and sales territory. These are amortized using the straight-line method over the useful life of the intangible item. The Company reviews the carrying value of intangibles on an annual basis or more frequently if events and circumstances indicate the potential for impairment. Management has determined that no impairment has occurred on finite-lived intangible assets.

Retirement Plans – The Company sponsors a 401(k) retirement plan covering all eligible employees. This plan allows the Company to make a discretionary matching and profit sharing contribution. The Company made contributions of \$56,862 in 2020 and \$54,770 in 2019 to the plan.

Advertising Costs – Advertising costs are expensed as incurred and totaled \$216,022 in 2020 and \$227,376 in 2019.

Income per Share – Income per share has been computed on the average number of shares outstanding during the year.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events – Management has evaluated subsequent events through February 10, 2021, which is the date the consolidated financial statements were available for issuance, and has determined that there are no subsequent events that require disclosure.

NOTE 2 – MARKETABLE EQUITY SECURITIES AND FAIR VALUE MEASUREMENTS

FASB Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, established a framework for measuring fair value, which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1 Quoted prices in active markets for identical assets.
- Level 2 Significant other observable inputs.
- Level 3 Significant unobservable inputs.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. All of the Company's marketable equity securities are valued based on quoted market prices of identical assets on active exchanges (Level 1). The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

The following table sets forth the fair value of the Company's marketable equity securities within the fair value hierarchy (all Level 1), as of December 31:

	<u>2020</u>	<u>2019</u>
Common Stocks	\$ 2,999,904	\$ 3,556,292
Mutual Funds	1,165,782	1,059,986
Exchange-Traded Funds	<u>2,818,419</u>	<u>2,607,023</u>
Total Marketable Equity Securities at Fair Value	<u>\$ 6,984,105</u>	<u>\$ 7,223,301</u>

See Independent Auditor's Report.

NOTE 3 – OPERATING LEASES

The Company has operating lease agreements with customers for tower and wind power sites, which expire at various dates through 2028. These leases generally contain renewal options.

Future minimum lease payments to be received under noncancelable operating leases (with initial or remaining terms over one year) as of December 31, 2020, are as follows:

2021	\$	158,882
2022		139,479
2023		118,227
2024		112,378
2025		95,883
Thereafter		<u>284,932</u>
Total	\$	<u>909,781</u>

NOTE 4 – LINE OF CREDIT AGREEMENTS AND LONG-TERM DEBT

The Company has a revolving line of credit agreement with a financial institution providing for maximum borrowings of \$1,500,000. There were no borrowings outstanding under this agreement at December 31, 2020 and 2019. Under the terms of the agreement, which expires on July 15, 2021, interest accrues on any outstanding advances at 4.50% at December 31, 2020. Borrowings under this agreement are secured by substantially all the Company's assets, and the Company is required to maintain certain financial and other covenants.

The Company also has a demand line of credit with another financial institution for borrowings up to a maximum of \$6,500,000. The credit available to the Company under the line of credit agreement may fluctuate and is determined by the financial institution based on the value of eligible collateral pledged to support the line of credit. The Company had borrowings under this line of credit of \$800,337 and \$1,132,856 outstanding as of December 31, 2020 and 2019, respectively. Borrowings under this line of credit bear interest at the LIBOR rate plus 1.25% (1.59% at December 31, 2020), with this rate subject to change at the financial institution's discretion. The line of credit is secured by the Company's marketable equity securities.

The Company previously borrowed \$728,000 from a financial institution under a note payable agreement to finance the purchase of a building. The Company had \$605,696 and \$633,400 outstanding on this note payable as of December 31, 2020 and 2019, respectively. This note bears interest at an annual rate of 4% and is due in monthly payments through April 2026. This note is secured by the building purchased, which has a carrying amount of \$855,048 as of December 31, 2020.

Future aggregate maturities of long-term debt are as follows at December 31, 2020:

2021	\$	29,230
2022		30,421
2023		31,660
2024		32,950
2025		34,292
Thereafter		<u>447,143</u>
Total	\$	<u>605,696</u>

On March 27, 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) which established the Paycheck Protection Program (the "Program"). The Program was created to assist small businesses in paying their employees and certain other expenses during the COVID-19 crisis. The Company applied for and received a loan under the Program in the amount of \$363,200. The Company received a notice of forgiveness from the Small Business Administration forgiving the loan principal and accrued interest in November 2020. As such, the Company has recognized \$365,231 as other income.

NOTE 5 – INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's net deferred income tax liabilities are as follows at December 31:

	<u>2020</u>	<u>2019</u>
Tax Over Book Depreciation	\$ 160,476	\$ 133,493
Unrealized Gain on Securities Available for Sale	1,028,789	924,861
Other	<u>56,625</u>	<u>(4,590)</u>
Net Deferred Tax Liabilities	<u>\$ 1,245,890</u>	<u>\$ 1,053,764</u>

Significant components of the provision for income tax expense (benefit) are as follows for the years ended December 31:

	<u>2020</u>	<u>2019</u>
Current:		
Federal	\$ 434,418	\$ 229,005
State	<u>205,837</u>	<u>48,124</u>
Total Current	<u>640,255</u>	<u>277,129</u>
Deferred:		
Federal	142,912	392,784
State	<u>49,214</u>	<u>114,636</u>
Total Deferred	<u>192,126</u>	<u>507,420</u>
Net Provision for Income Tax Expense	<u>\$ 832,381</u>	<u>\$ 784,549</u>

The provision for income taxes recognized differs from the amount that would result from applying federal statutory rates to income before income taxes due primarily to permanent differences and state income taxes.

NOTE 6 – RELATED PARTY TRANSACTIONS

The Company incurred expenses of \$90,000 in both 2020 and 2019 for legal services provided by a law firm, a member of which serves as a director of the Company. The Company paid directors' fees of \$170,150 in 2020 and \$175,150 in 2019.

NOTE 7 – EMPLOYEE STOCK PURCHASE PLAN

Effective January 1, 2015, the Company established an employee stock purchase plan that covers all full-time employees with at least one year of employment with the Company prior to the commencement of the plan. Up to 1,000 shares were authorized under this plan which had a term of one year. Under the terms of the plan, the purchase price shall be 80% of the closing share price at specified dates, as defined. The stock purchased under this plan is subject to certain restrictions and cannot be sold unless these restrictions are satisfied and eliminated. These restrictions include stock buyback provisions, at the Company's option, if the employee terminates employment with the Company for any reason other than normal retirement, death, total disability or approved early retirement. These restrictions will be removed upon the employee attaining the age of 65 or on the fifth anniversary of the stock purchase date.

NOTE 7 – EMPLOYEE STOCK PURCHASE PLAN (Continued)

The following table summarizes the nonvested/restricted stock issuances under this plan during 2020 and 2019:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested / Restricted at January 1, 2019	93	\$ 326
Vested	(93)	326
Nonvested / Restricted at December 31, 2019	0	0
Vested	0	0
Nonvested / Restricted at December 31, 2020	0	\$ 0

Stock-based compensation expense of \$0 and \$1,258 was recognized in 2020 and 2019, respectively, and was calculated as the difference between the fair value of the stock (based on quoted price of stock shares) and the purchase price of the stock on the measurement date of stock purchase. These costs are allocated accordingly over the vesting period. As of December 31, 2019, all compensation costs related to the nonvested/restricted stock have been recognized.



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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Windrock Land Company and Subsidiaries

We have audited the consolidated financial statements of Windrock Land Company and Subsidiaries (the "Company") as of and for the year ended December 31, 2020, and have issued our report thereon dated February 10, 2021, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The financial statements of the Company, as of and for the year ended December 31, 2019, were audited by other auditors, whose report, dated February 14, 2020, expressed an unmodified opinion on those statements.

The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
February 10, 2021



An independently owned member
RSM US Alliance



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Members of the Tennessee Society
Of Certified Public Accountants

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**WINDROCK LAND COMPANY
AND SUBSIDIARIES**

CONSOLIDATED DETAILS OF OPERATING EXPENSES

	2020	2019
Salaries	\$ 1,938,959	\$ 1,745,638
General Store Cost of Sales	463,896	382,060
Consultant Fees	70,767	73,341
Directors' Fees and Expenses	171,343	184,360
Legal Services	91,556	94,844
Timber Management	46,190	43,487
Recreational Use Expense	103,794	73,843
Insurance	293,009	375,921
Taxes	514,656	397,475
Travel	32,857	33,949
Telephone	36,699	40,459
Supplies	209,648	173,315
Administration and Accounting	48,487	52,206
Employee Pension Plans	56,862	54,770
Utilities	133,159	137,593
OHV Events	18,399	448,852
Maintenance	153,174	107,642
Depreciation, Amortization and Loss on Sales of Equipment	538,466	555,134
Tower Expense	28,785	29,001
Advertising	216,022	227,376
Miscellaneous	33,082	22,033
Total Operating Expenses	\$ 5,199,810	\$ 5,253,299

See Independent Auditor's Report on Supplementary Information

Windrock Park



General Store Totem Pole



Campground Yurts

Windrock Park



Fall Jeep Ride



Dirt Bike at T22 Waterfall

Windrock Park



Kids on the Trails



Windrock SxS Rental

Windrock Park



Bigfoot Blast Fundraiser Race



Snow on the Mountain