

**Falls Creek Ranch Association, Inc
Financial Statements and
Supplementary Information**

Year Ended July 31, 2017

Prepared By:

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Supplementary Information
Year Ended July 31, 2017**

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Falls Creek Ranch Association, Inc.
Durango, Colorado

We have reviewed the accompanying Balance Sheet of Falls Creek Ranch Association, Inc. (an incorporated nonprofit homeowner's association) as of July 31, 2017, and the related Statements of Revenues, Expenses, and Changes in Fund Balances and Statement of Cash Flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Association management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services issued by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information about future major repairs and replacements of common property on page 11 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. This information is the representation of Management. We have not audited, reviewed, or compiled the required supplementary information, and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such supplementary information.

Elliott, Meadows & Associates, LLC
Certified Public Accountants



R. Thomas Meadows, CPA
Durango, Colorado
February 2, 2018

FALLS CREEK RANCH ASSOCIATION, INC.
Balance Sheet by Class
As of July 31, 2017

	Operating	Capital	Grants
ASSETS			
Current Assets			
Cash in Bank	\$ 187,313	\$ 166,024	\$ 32,081
Accounts Receivable, Net	2,333	2,545	3,071
Total Current Assets	189,646	168,569	35,152
Property, Plant, & Equipment			
Buildings & Bldg Improvements	0	168,934	0
Roads & Road Improvements	0	218,825	0
Vehicles & Equipment	0	340,880	0
Lake, Utilities & Improvements	0	509,922	0
Total P,P, & E (at Original Cost)	0	1,238,561	0
Accumulated Depreciation	0	(734,093)	0
Total Property, Plant, & Equipment, Net of Depreciation	0	504,468	0
TOTAL ASSETS	\$ 189,646	\$ 673,037	\$ 35,152
LIABILITIES & FUND BALANCES			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 10,235	\$ 8,054	0
Prepaid Assessments & Billings	95,650	3,498	0
Current Portion of Long-Term Debt	25,392	0	0
Total Current Liabilities	131,277	11,552	0
Long Term Liabilities			
Spillway Diversion Note Loans	55,392	0	0
Less Current Portion	(25,392)	0	0
Total Long Term Liabilities	30,000	0	0
Total Liabilities	161,277	11,552	0
Total Fund Balances	28,369	661,485	35,152
TOTAL LIABILITIES & FUND BALANCES	\$ 189,646	\$ 673,037	\$ 35,152

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Revenues, Expenses, and Changes in Fund Balances
For the year ended July 31, 2017

	<u>Operating</u>	<u>Capital</u>	<u>Grants</u>	<u>TOTAL</u>
Revenues				
Assessments				
Improved Lots	\$ 218,236	\$ 54,764	\$ -	\$ 273,000
Unimproved Lots	20,864	5,236	-	26,100
Total Assessments	<u>239,100</u>	<u>60,000</u>	<u>-</u>	<u>299,100</u>
Water Billing Service Fee	30,219	-	-	30,219
Water Usage Charge	-	21,076	-	21,076
Misc. Income	2,988	-	-	2,988
Grant Income	-	-	35,930	35,930
Interest Income	9	8	2	19
Late Fees	496	-	-	496
Total Revenues	<u>272,812</u>	<u>81,084</u>	<u>35,932</u>	<u>389,828</u>
Expenses				
Caretaker & Help	70,568	-	-	70,568
Ranch House	5,660	-	-	5,660
Equipment Shed	3,927	-	-	3,927
Beautification Committee	184	-	-	184
Lakeside Committee	2,909	-	-	2,909
Roads Committee	24,191	-	-	24,191
Firewise Program	1,555	-	35,930	37,485
Utilities Committee	34,948	-	-	34,948
Common Property	8,410	-	-	8,410
Equipment Operations	14,593	-	-	14,593
Liability, Prop, DO Insurance	20,362	-	-	20,362
Accounting	14,700	-	-	14,700
Dumpsters	9,732	-	-	9,732
Activities	1,551	-	-	1,551
Board Operations	7,444	-	-	7,444
Note Interest Expense	3,079	-	-	3,079
Dam Committee	447	-	-	447
Depreciation Expense	-	43,634	-	43,634
Total Expenses	<u>224,260</u>	<u>43,634</u>	<u>35,930</u>	<u>303,824</u>
Excess (Deficiency) of Revenues over Expenses	\$ 48,552	\$ 37,450	\$ 2	\$ 86,004
Fund Balance at Beginning of Year	(7,507)	616,509	30,000	639,002
Transfers of Assets	<u>(12,676)</u>	<u>7,526</u>	<u>5,150</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 28,369</u>	<u>\$ 661,485</u>	<u>\$ 35,152</u>	<u>\$ 725,006</u>

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended July 31, 2017

	Operating Fund	Capital Reserve Fund	Designated Grant Fund
OPERATING ACTIVITIES			
Excess (Deficiency) of Revenues over Expenses	\$ 48,552	\$ 37,450	\$ 2
Adjustments to reconcile Net Income to net cash provided by operations:			
(Increase)/Decrease in Accounts Receivable	(2,333)	1,723	38,929
Depreciation Expense	-	43,634	-
Increase/(Decrease) in Accounts Payable	(5,512)	8,055	(42,000)
Increase/(Decrease) in Prepaid Assessments & Fees	35,700	(62)	-
Net Cash provided (used) by Operating Activities	<u>76,407</u>	<u>90,800</u>	<u>(3,069)</u>
INVESTING ACTIVITIES			
Cash Used for Acquisition of Assets	-	(18,016)	-
Net Cash provided (used) by Investing Activities	-	(18,016)	-
FINANCING ACTIVITIES			
(Decrease) in Spillway Diversion Note Loans	(25,146)	-	-
Net Cash provided (used) by Financing Activities	<u>(25,146)</u>	<u>-</u>	<u>-</u>
TRANSFERS BETWEEN FUNDS			
	(12,676)	7,526	5,150
Net Cash increase (decrease) for Year	38,585	80,310	2,081
Cash at July 31, 2016	<u>148,728</u>	<u>85,714</u>	<u>30,000</u>
Cash at July 31, 2017	<u>\$ 187,313</u>	<u>\$ 166,024</u>	<u>\$ 32,081</u>

FALLS CREEK RANCH ASSOCIATION, INC.
Notes to Financial Statements
Year Ended July 31, 2017

Note 1 – Association Organization and Purpose

Falls Creek Ranch Association, Inc. was organized in the state of Colorado on June 17, 1982 for the purpose of operating and maintaining of the common property within an approximately 1,000 acre development in La Plata County, Colorado. The development consists of 100 privately-owned single-family 1-acre lots. During the year ended July 31, 2017, 92 lots were categorized as improved, and 8 lots as unimproved.

Note 2 – Summary of Significant Accounting Policies

Accounting Method

The Association prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned (rather than received) and expenses are recognized when goods or services are received, whether paid or not.

Fiscal Year

The fiscal year of the Association begins on August 1 of each year and ends on July 31 of the following year.

Accounts Receivable and Allowance for Doubtful Accounts

Assessments are billed at the beginning of the fiscal year, and may be paid in full, or in two installments due August 1 and February 1. As of July 31, 2017, \$4,878 of billed assessments and fees remain uncollected.

Capitalization Policy

The Association's policy is to capitalize personal property and equipment that has a common element maintenance responsibility and has a remaining life that is limited and predictable, with a minimum cost of \$1,000 and a useful life greater than one year. Capitalized assets are recorded at their original purchase cost.

Fund Accounting

The Association maintains its accounts using fund accounting. Financial resources are classified for accounting and financial reporting in the following funds established according to their nature and purpose:

Operating Fund – this fund is used to account for financial resources available for the general operation and maintenance of the Association.

Capital Reserve Fund – this fund is used to accumulate financial resources designated for future major repairs and replacements of common property elements.

Restricted Grant Fund – this fund is used to account for grant resources available for those specific needs and requirements associated with specific grants. The Grant Fund also holds \$30,000 of operating cash contributed from the Operating Fund, which will be returned to the Operating Fund upon the eventual final dissolution of the Grant Fund.

Grant Fund Revenue Recognition

The Association recognizes grant revenues as earned and receivable when reimbursable expenditures are incurred. As of July 31, 2017, \$3,071 of grants had been earned but not yet received.

Annual Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Members have the option of paying assessments in either one installment due August 1, or two installments due August 1 and February 1. For the year ended July 31, 2017, the annual assessment was \$3,000 per improved lot and \$2,900 per unimproved lot.

Special Assessments

Special assessments may be made by the Board as necessary. However such special assessments must be approved by a majority of the members present at a special meeting called for the purpose of a special assessment, or at an annual meeting. No special assessments were made in the year ended July 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of 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.

Depreciation and Amortization

The Association recognizes depreciation expenses for tangible personal and real property on the straight-line basis over their estimated useful lives, beginning when the asset is placed in service. The Association recognizes amortization expenses for intangible assets on the straight-line basis over the expected beneficial life of the intangible asset. Depreciation expense for the year ended July 31, 2017 was \$43,634.

"Real property" is defined as land and things permanently attached to land, such as roads and buildings. "Tangible personal property" is tangible (i.e. physical) property *other than* real property, such as vehicles and equipment. Intangible assets are property that is not generally physical, such as copyrights and customer lists. (The Association does not currently have any intangible assets to report.)

Statement of Cash Flows

A Statement of Cash Flows summarizes all use of cash and cash equivalents for the year, categorized as cash provided and used by operating activities, cash used to invest in long-life assets and provided by their disposition, and cash provided and used by financing activities (such as borrowing and retirement of debt).

Note 3 – Income Taxes

Under the Internal Revenue Code, Homeowners' Associations may file and pay taxes as a Corporation, or may elect in certain circumstances stipulated by Internal Revenue Code Section 528 to file as a Homeowners Association

The Association's income tax returns have been prepared for filing before the extended due date of May 15, 2018. The Association qualifies as a tax-exempt homeowners' association under IRC Sec. 528 for the year ended July 31, 2017. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 4.63% by the State of Colorado.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for the years ended July 31, 2014, 2015, 2016, and 2017 remain open to examination by the Internal Revenue Service; state income tax returns for years ended in 2013, 2014, 2015, 2016, and 2017 are open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 4 – Common Area Property

Common area land acquired by the original homeowners from the developer are not capitalized and shown on the Association's financial statements. Although these properties are owned by the Association, the assets are not recognizable under generally accepted accounting principles, as the Association will not, in the ordinary course of business, dispose of the property.

Note 5 – Reserves for Future Major Repairs and Replacements

The Association's governing documents require funds to be established and maintained for future repairs and replacements of common property, consisting of assets for which the Association has a common area maintenance responsibility, which have a predictable limited life, and having an original cost of more than \$5,000. During the year ended July 31, 2015, the Association conducted a reserve study to estimate the remaining useful lives of the common property components. A schedule of such assets, updated to include assets acquired subsequent to the study, is included as Supplementary Information following the notes to the Financial Statements.

The Association is funding for such major repairs and replacement costs over the estimated remaining useful lives of the components based on the study's estimates of current repair and replacement costs. Actual costs and the timing of those expenditures may vary from estimates used and the variations may be material.

Accumulated reserve funds, which aggregated \$166,024 as of July 31, 2017, are held in separate accounts and generally not available for operating purposes. For years ended prior to August 1, 2015, allocations to capital reserves were at the discretion of the Board. As of July 11, 2015, the Association has adopted a capital reserve policy.

Based on the reserve study completed February 18, 2015, the Association was approximately 8% funded. The Association has adopted a multi-year plan to increase funding levels. To the extent amounts accumulated in the reserve fund may not be adequate to meet future needs, the Association has the right to increase regular assessments or levy special assessments, borrow, or delay major repairs and replacements until funds are available.

Note 6 – Long-term Liabilities

The Association's governing documents allow for the Association to finance capital expenditures through the issuance of loans from members, as evidenced by unsecured promissory notes to be repaid through budgeted annual assessments. The Association has undertaken such borrowing to finance the Spillway Diversion Project.

As of July 31, 2017, the Association's long-term liabilities from borrowings for the Spillway Diversion Project, totaling \$55,000, consisted of the following:

\$25,000 consisting of 2 member notes with an interest rate of 4.0% and maturity date of June 1, 2018

\$30,000 consisting of 2 member notes with an interest rate of 4.5% and maturity date of June 1, 2019

Unpaid interest in the amount of \$392 is accrued as of July 31, 2017.

Note 7 – Employees, Payroll Expenses, and Employee Benefits

The Association employs a caretaker, who receives a salary and benefits including a contribution to a defined contribution retirement plan. The Association maintains a worker's compensation policy. As of July 31, 2017, there were no amounts past due for wages, payroll taxes, benefits, or related expenses.

Note 8 – Grants and Special Projects

Grants

The Association participates in a number of grants related to fire mitigation and forest health. Many of these grants require participation by the Association in the form of volunteer labor. No amounts have been recorded in the financial records for volunteer work provided by Association members.

The Association has been awarded a Stevens Hazardous Fuels Grant of \$115,200 by the Colorado State Forest Service. The grant provides for reimbursement of certain expenses related to fire mitigation and fuels reduction on the common property of the Association. As of July 31, 2017, the Association has incurred expenditures of \$111,190, and been reimbursed the same amount.

The Association was awarded a Safe Passage grant of \$10,860, for the purpose of clearing encroaching trees and brush from County Road 205. The Association Board of Directors voted not to accept this grant, and it was formally returned to the U.S. Forest Service.

The Association was awarded a \$50,000 grant from the Colorado Forest Restoration Grant Program. The grant provides for reimbursement of certain expenses related to watershed restoration, contingent upon provision of in-kind service hours by Association members. As of July 31, 2017, the Association has incurred expenditures of \$50,000, and been reimbursed a total of \$50,000.

The Association was awarded a Colorado Department of Natural Resources grant of \$2,750 to trim back encroaching trees and ladder fuels along Falls Creek Main. As of July 31, 2017, all expenditures have been made and reimbursed.

Spillway Diversion Project

The Association has undertaken to replace the outflow spillway from its community-owned lake. The project was expected to cost a total of \$128,470. As of July 31, 2017, the final costs incurred for the project totaled \$99,474.

Note 9 – Subsequent Events

Subsequent to the financial statement date, but before the date of the issuance of these statements, the Association has begun the process of purchasing rights to perpetual real property easements. These easements will provide access to additional domestic water resources with other nearby water utility providers, in the event such resources are ever needed by the Association. The total cost of acquiring these rights is expected to be approximately \$50,000.

Falls Creek Ranch Association, Inc.
 Unaudited Supplementary Information
 Schedule of Future Major Repairs and Replacements
 As of July 31, 2017

<u>Name</u>	<u>Acquisition</u>	<u>Original Cost</u>	<u>Useful</u>	<u>Remain</u>	<u>Replacement</u>
	<u>Date</u>		<u>Life</u>		
Replacement of Ranch House Foundation	1999	20,000	40	23	25,000
Ranch House Garage	2006	38,625	75	55	50,000
Ranch House Garage Roof	2006	7,725	20	10	10,000
Ranch House Improvements	2008	5,400	10	2	10,000
Ranch House (siding, paint, roof repair)	2011	21,780	20	15	25,000
Equipment Shed-First Bay	1983	19,300	50	17	10,000
Mailbox Shed	1987	3,500	50	21	10,000
Equipment Shed-Second Bay	8900	8,900	50	22	10,000
Equipment Shed-Third Bay	2003	12,000	50	37	10,000
Record Shed	2005	10,000	50	39	15,000
Sand Shed Construction	2010	12,910	50	44	15,000
Guardrail on Falls Creek Main-1	2004	4,325	30	19	8,000
Guardrail on Falls Creek Main-2	2009	6,000	30	23	8,000
Water Tanks (2)	1993	10,000	40	17	60,000
Water System Piping	1993	30,000	40	17	60,000
Well #1 Pump Replacement (5hp)	1998	5,000	15	0	6,000
Well #2 Pump Replacement (2hp)	2000	3,200	7	6	6,000
SCADA Computer & Data System	2003	45,000	15	1	50,000
Well #4 (pump, casing, drilling, testing)	2005	85,000	15	4	100,000
Water Disinfection Project-1	2012	80,000	30	26	100,000
Water Disinfection Project-2	2013	100,000	30	27	100,000
Used Dump Truck	1989	69,500	28	13	30,000
Used Grader	1992	59,000	24	18	44,000
Used Zetor Tractor	2001	21,000	18	13	25,000
Used 2006 GMC Pickup	2009	12,300	10	3	15,000
Lower Tank Renovation	Oct-15	15,000	10	9	15,000
Upper Tank Renovation	Oct-15	14,640	10	9	14,640
Tank Site Level Gauge	Oct-15	2,195	15	14	2,195
Fire Hydrant	Nov-15	5,000	20	19	5,000
Backhoe	Dec-15	41,265	20	19	41,265
Lower PWT Building Backup Generator	Dec-15	7,756	10	9	7,756
Upper PWT Building Backup Generator	Dec-15	6,929	10	9	6,929
Air Curtain Burner	May-16	30,000	15	14	30,000
Backhoe Thumb	Jul-16	4,001	20	19	4,001
Snow Plow	Feb-17	7,526	10	10	7,526
Culverts	Jul-17	6,225	30	30	6,225
Totals		\$ 831,002			\$ 942,537

See Accompanying Accountant's Review Report