

**Falls Creek Ranch Association, Inc.  
Financial Statements and  
Supplementary Information  
Year Ended July 31, 2018**

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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, 2018, 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  
March 26, 2019

**DRAFT AS OF 3/26/2019**

FALLS CREEK RANCH ASSOCIATION, INC.  
Balance Sheet by Fund  
As of July 31, 2018

	Operating	Capital	Grants
<b>ASSETS</b>			
Current Assets			
Cash in Bank	\$ 75,410	\$ 196,403	\$ 31,589
Accounts Receivable, Net	0	752	0
Total Current Assets	<u>75,410</u>	<u>197,155</u>	<u>31,589</u>
Property, Plant, & Equipment			
Buildings & Bldg Improvements	0	180,934	0
Roads & Road Improvements	0	218,825	0
Vehicles & Equipment	0	257,793	0
Lake, Utilities & Improvements	0	756,369	0
Total P,P, & E (at Original Cost)	<u>0</u>	<u>1,413,921</u>	<u>0</u>
Accumulated Depreciation	0	(746,989)	0
Total Property, Plant, & Equipment, Net of Depreciation	<u>0</u>	<u>666,932</u>	<u>0</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 75,410</u></u>	<u><u>\$ 864,087</u></u>	<u><u>\$ 31,589</u></u>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Liabilities			
Current Liabilities			
Accounts Payable	\$ 43,567	\$ -	0
Prepaid Assessments & Billings	3,300	5,182	0
Current Portion of Long-Term Debt	30,225	0	0
Total Current Liabilities	<u>77,092</u>	<u>5,182</u>	<u>0</u>
Long Term Liabilities			
Spillway Diversion Note Loans	30,225	0	0
Less Current Portion	<u>(30,225)</u>	<u>0</u>	<u>0</u>
Total Long Term Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities	<u>77,092</u>	<u>5,182</u>	<u>0</u>
Total Fund Balances	<u>(1,682)</u>	<u>858,905</u>	<u>31,589</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u><u>\$ 75,410</u></u>	<u><u>\$ 864,087</u></u>	<u><u>\$ 31,589</u></u>

FALLS CREEK RANCH ASSOCIATION, INC.  
Statement of Revenues, Expenses, and Changes in Fund Balances  
For the year ended July 31, 2018

	Operating	Capital	Grants	TOTAL
<b>Revenues</b>				
Assessments				
Improved Lots	\$ 220,634	\$ 55,366	\$ -	\$ 276,000
Unimproved Lots	18,546	4,654	-	23,200
Total Assessments	<u>239,180</u>	<u>60,020</u>	-	<u>299,200</u>
Road Easements	100			
Water Billing Service Fee	29,167	-	-	29,167
Water Usage Charge	-	23,658	-	23,658
Misc. Income	2,742	-	-	2,742
Grant Income	-	-	500	500
Interest Income	21	17	3	41
Late Fees	80	-	-	80
Total Revenues	<u>271,290</u>	<u>83,695</u>	<u>503</u>	<u>355,489</u>
<b>Expenses</b>				
Caretaker & Help	73,283	-	-	73,283
Ranch House	1,232	-	-	1,232
Equipment Shed	5,369	-	-	5,369
Beautification Committee	212	-	-	212
Lakeside Committee	4,749	-	-	4,749
Roads Committee	25,755	-	-	25,755
Firewise Program	898	-	995	1,893
Utilities Committee	22,999	-	-	22,999
Common Property	6,890	-	-	6,890
Equipment Operations	13,910	-	-	13,910
Contractor Services	33,645	-	-	33,645
Liability, Prop, DO Insurance	21,795	-	-	21,795
Accounting	14,725	-	-	14,725
Dumpsters	12,464	-	-	12,464
Activities	1,301	-	-	1,301
Board Operations	3,751	-	-	3,751
Note Interest Expense	2,183	-	-	2,183
Dam Committee	60	-	-	60
Depreciation Expense	-	46,959	-	46,959
Loss on Disposition of Assets	-	1,333	-	1,333
Total Expenses	<u>245,221</u>	<u>48,292</u>	<u>995</u>	<u>294,508</u>
Excess (Deficiency) of Revenues over Expenses	\$ 26,070	\$ 35,402	\$ (492)	\$ 60,980
Fund Balance at Beginning of Year	28,369	767,382	32,081	827,832
Transfers of Assets	<u>(56,121)</u>	<u>56,121</u>	<u>-</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ (1,682)</u>	<u>\$ 858,905</u>	<u>\$ 31,589</u>	<u>\$ 888,812</u>

FALLS CREEK RANCH ASSOCIATION, INC.  
Statement of Cash Flows  
For the Year Ended July 31, 2018

	Operating Fund	Capital Reserve Fund	Designated Grant Fund
<b>OPERATING ACTIVITIES</b>			
Excess (Deficiency) of Revenues over Expenses	\$ 26,069	\$ 35,402	\$ (492)
Adjustments to reconcile Net Income to net cash provided by operations:			
(Increase)/Decrease in Accounts Receivable	2,333	1,792	-
Depreciation Expense	-	46,959	-
(Gain)/Loss on Disposition of Assets	-	1,333	-
Increase/(Decrease) in Accounts Payable	33,333	(8,055)	-
Increase/(Decrease) in Prepaid Assessments & Fees	(92,350)	1,685	-
Net Cash provided (used) by Operating Activities	<u>(30,615)</u>	<u>79,116</u>	<u>(492)</u>
<b>INVESTING ACTIVITIES</b>			
Cash Used for Acquisition of Assets	-	(104,859)	-
Net Cash provided (used) by Investing Activities	-	(104,859)	-
<b>FINANCING ACTIVITIES</b>			
(Decrease) in Spillway Diversion Note Loans	(25,167)	-	-
Net Cash provided (used) by Financing Activities	<u>(25,167)</u>	<u>-</u>	<u>-</u>
<b>TRANSFERS BETWEEN FUNDS</b>			
	(56,121)	56,121	-
Net Cash increase (decrease) for Year	(111,903)	30,378	(492)
Cash at July 31, 2017	<u>187,313</u>	<u>166,025</u>	<u>32,081</u>
Cash at July 31, 2018	<u>\$ 75,410</u>	<u>\$ 196,403</u>	<u>\$ 31,589</u>

DRAFT AS OF 3/24/2019

**FALLS CREEK RANCH ASSOCIATION, INC.**  
**Notes to Financial Statements**  
**Year Ended July 31, 2018**

**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, 2018, 94 lots were categorized as improved, and 6 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, 2018, \$752 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.

Change in Method of Accounting for Prior Period Expenditure

In the fiscal year ended July 31, 2014, the Association undertook a major project to replace the lake diversion spillway. At that time, the Association recorded the costs as expenditures in the financial statements. The Association has subsequently determined to reclassify the \$115,000 cost of the spillway project as a capitalized asset.

Had the spillway project costs been capitalized at the time the project was originally completed, the Association would have recorded an additional \$9,104 in depreciation deductions prior to fiscal year ended July 31, 2018. The accounts for capitalized assets, accumulated depreciation, and fund balances have been adjusted to reflect this change.

#### 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, 2018, no 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, 2018, 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, 2018.

### 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, 2018 was \$46,959.

"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.)

### Gains and Losses on Disposition of Assets

The Association recognizes gains and losses on the disposition of assets determined as any proceeds received from the disposition, less the original cost of the asset adjusted for all depreciation recognized. In fiscal year ended July 31, 2018, the Association recognized that several assets had been scrapped or were no longer in service. Most of these assets were fully depreciated and were scrapped with no value, thus no gain or loss was recognized. However, one truck was written off that had a remaining adjusted basis of \$1,333. The \$1,333 is reflected as a loss on the financial statements.

### 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 will be prepared for filing before the extended due date of May 15, 2019. The Association qualifies as a tax-exempt homeowners' association under IRC Sec. 528 for the year ended July 31, 2018. 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 21% 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, 2015, 2016, 2017, and 2018 remain open to examination by the Internal Revenue Service; state income tax returns for years ended in 2014, 2015, 2016, 2017, and 2018 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 or disposed 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 \$196,403 as of July 31, 2018, 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 in June, 2014.

As of July 31, 2018, the Association's long-term liabilities from borrowings for the Spillway Diversion Project, totaling \$30,000, consisted of the following:

\$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 \$225 is accrued as of July 31, 2018.

#### **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, 2018, 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 or others.

The Association was awarded a \$500 grant by the National Fire Protection Association and State Farm to fund a fire awareness educational meeting and materials. The meeting was held on Saturday, May 5, 2018, and included a practice emergency evacuation drill. The Association has incurred expenditures of \$500, and has been reimbursed \$500.

### 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.

### Purchase of Easements

The Association purchased real property easements to 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 the easements was \$56,121.

### 416 Fire

The Association has incurred costs to protect common property from runoff from burn scar areas left by the 416 Fire that occurred in June 2018.

## **Note 9 – Subsequent Events**

Subsequent to the financial statement date, but before the date of the issuance of these statements, the Association issued unsecured promissory notes to members in the amount of \$50,000 to finance the purchase of the real property easements. The notes consist of \$30,000 of 2-year notes with an interest rate of 3.5% and maturity date of October 12, 2020, and \$20,000 of 3-year notes with an interest rate of 4.0% and a maturity date of October 12, 2021.

Falls Creek Ranch Association, Inc.  
 Unaudited Supplementary Information  
 Schedule of Future Major Repairs and Replacements  
 As of July 31, 2018

Name	Acquisition Date	Original Cost	Useful		Replacement Cost Estimate
			Life (yrs)	Remain Life (yrs)	
Replacement of Ranch House Foundation	1999	20,000	40	21	25,000
Ranch House Garage	2006	38,625	75	63	50,000
Ranch House Garage Roof	2006	7,725	20	8	10,000
Ranch House Improvements	2008	5,400	10	0	10,000
Ranch House (siding, paint, roof repair)	2011	21,780	20	13	25,000
Equipment Shed-First Bay	1983	19,300	50	15	10,000
Mailbox Shed	1987	3,500	50	19	10,000
Equipment Shed-Second Bay	2003	8,900	50	35	10,000
Equipment Shed-Third Bay	2003	12,000	50	35	10,000
Record Shed	2005	10,000	50	37	15,000
Sand Shed Construction	2010	12,910	50	42	15,000
Guardrail on Falls Creek Main-1	2004	4,325	30	16	8,000
Guardrail on Falls Creek Main-2	2009	6,000	30	21	8,000
Water Tanks (2)	1993	10,000	40	15	60,000
Water System Piping	1993	30,000	40	15	60,000
Well #1 Pump Replacement (5hp)	1998	5,000	15	0	6,000
Well #2 Pump Replacement (2hp)	2000	3,200	7	0	6,000
SCADA Computer & Data System	2003	45,000	15	0	50,000
Well #4 (pump, casing, drilling, testing)	2005	85,000	15	2	100,000
Water Disinfection Project-1	2012	80,000	30	24	100,000
Water Disinfection Project-2	2013	100,000	30	25	100,000
Used Dump Truck	1989	69,500	28	0	30,000
Used Grader	1992	59,000	24	0	44,000
Used Zetor Tractor	2001	21,000	18	1	25,000
Lake Spillway	2014	115,000	40	36	115,000
Lower Tank Renovation	2015	15,000	10	7	15,000
Upper Tank Renovation	2015	14,640	10	7	14,640
Tank Site Level Gauge	2015	2,195	15	12	2,195
Fire Hydrant	2015	5,000	20	17	5,000
Backhoe	2015	41,265	20	17	41,265
Lower PWT Building Backup Generator	2015	7,756	10	7	7,756
Upper PWT Building Backup Generator	2015	6,929	10	7	6,929
Air Curtain Burner	2017	30,000	15	14	30,000
Backhoe Thumb	2017	4,001	20	19	4,001
Snow Plow	2017	7,526	10	9	7,526
Culverts	2017	6,225	30	29	6,225
2012 Dodge Ram	2017	21,000	10	9	21,000
Fire Hydrant	2017	4,265	20	19	4,500
Water Meter Reader	2018	6,884	5	5	7,000
Totals		<u>\$ 965,851</u>			<u>\$ 1,075,037</u>

See Accompanying Accountant's Review Report