

**Falls Creek Ranch Association, Inc.
Financial Statements and
Supplementary Information
Year Ended July 31, 2016**

| Table of Contents | Page |
|--|-------------|
| Independent Accountant's Review Report | 1 |
| Financial Statements | |
| Balance Sheet | 2 |
| Statement of Revenues, Expenses, and Changes in Fund Balances | 3 |
| Statement of Cash Flows | 4 |
| Notes to Financial Statements | 5 |
| Supplementary Information | |
| Supplementary Information on Future Major Repairs and Replacements (Not Audited, Reviewed, or Compiled) | 11 |

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, 2016, 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 the preparation and fair presentation of the 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



R. Thomas Meadows, CPA
Durango, CO
September 29, 2016

FALLS CREEK RANCH ASSOCIATION, INC.
Balance Sheet by Class
As of July 31, 2016

| | Operating | Capital | Grants |
|--|-------------------|-------------------|------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash in Bank | \$ 148,728 | \$ 85,714 | \$ 30,000 |
| Accounts Receivable, Net | | 4,268 | 42,000 |
| Total Current Assets | <u>148,728</u> | <u>89,982</u> | <u>72,000</u> |
| Property, Plant, & Equipment | | | |
| Buildings & Bldg Improvements | 0 | 168,934 | 0 |
| Roads & Road Improvements | 0 | 218,825 | 0 |
| Vehicles & Equipment | 0 | 325,767 | 0 |
| Lake, Utilities & Improvements | 0 | 507,020 | 0 |
| Total P,P, & E (at Original Cost) | <u>0</u> | <u>1,220,546</u> | <u>0</u> |
| Accumulated Depreciation | 0 | (690,459) | 0 |
| Total Property, Plant, & Equipment, Net of Depreciation | <u>0</u> | <u>530,087</u> | <u>0</u> |
| TOTAL ASSETS | <u>\$ 148,728</u> | <u>\$ 620,069</u> | <u>\$ 72,000</u> |
| LIABILITIES & FUND BALANCES | | | |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts Payable | \$ 15,747 | \$ - | \$ 42,000 |
| Prepaid Assessments | 59,950 | 3,560 | 0 |
| Current Portion of Long-Term Debt | 25,538 | 0 | 0 |
| Total Current Liabilities | <u>101,235</u> | <u>3,560</u> | <u>42,000</u> |
| Long Term Liabilities | | | |
| Spillway Diversion Note Loans | 80,538 | 0 | 0 |
| Less Current Portion | (25,538) | 0 | 0 |
| Total Long Term Liabilities | <u>55,000</u> | <u>0</u> | <u>0</u> |
| Total Liabilities | 156,234 | 3,560 | 42,000 |
| Total Fund Balances | <u>(7,507)</u> | <u>616,509</u> | <u>30,000</u> |
| TOTAL LIABILITIES & FUND BALANCES | <u>\$ 148,728</u> | <u>\$ 620,069</u> | <u>\$ 72,000</u> |

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Revenues, Expenses, and Changes in Fund Balances
For the year ended July 31, 2016

| | Operating | Capital | Grants | TOTAL |
|--|-------------------|-------------------|------------------|-------------------|
| 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>299,100</u> |
| Road Easements | - | - | - | - |
| Water Billing Service Fee | 30,300 | - | - | 30,300 |
| Water Usage Charge | - | 21,591 | - | 21,591 |
| Misc. Income | 1,761 | - | - | 1,761 |
| Grant Income | - | - | 52,500 | 52,500 |
| Interest Income | 17 | 8 | 3 | 27 |
| Late Fees | 316 | - | - | 316 |
| High Meadow Fees | 4,055 | - | - | 4,055 |
| Watson Property Fees | 843 | - | - | 843 |
| Total Revenues | <u>276,391</u> | <u>81,599</u> | <u>52,503</u> | <u>410,493</u> |
| Expenses | | | | |
| Utilities Capital Projects | 1,438 | - | - | 1,438 |
| Caretaker & Help | 63,072 | - | - | 63,072 |
| Ranch House | 1,275 | - | - | 1,275 |
| Equipment Shed | 14,310 | - | - | 14,310 |
| Beautification Committee | 133 | - | - | 133 |
| Lakeside Committee | 853 | - | - | 853 |
| Roads Committee | 29,989 | - | - | 29,989 |
| Firewise Program | 1,769 | - | 29,436 | 31,205 |
| Utilities Committee | 16,717 | - | - | 16,717 |
| Common Property | 16,220 | - | - | 16,220 |
| Equipment Operations | 13,250 | - | - | 13,250 |
| Services | | | | |
| Liability, Prop, DO Insurance | 18,825 | - | - | 18,825 |
| Accounting | 12,400 | - | - | 12,400 |
| Finance Charges | - | - | - | - |
| Dumpsters | 9,913 | - | - | 9,913 |
| Total Services | <u>41,138</u> | <u>-</u> | <u>-</u> | <u>41,138</u> |
| Activities | 699 | - | - | 699 |
| Board Operations | 7,351 | - | - | 7,351 |
| Note Interest Expense | 4,013 | - | - | 4,013 |
| Dam Committee | 6,157 | - | - | 6,157 |
| Depreciation Expense | - | 39,934 | - | 39,934 |
| Total Expenses | <u>218,383</u> | <u>39,934</u> | <u>29,436</u> | <u>287,752</u> |
| Excess (Deficiency) of Revenues over Expenses | \$ 58,008 | \$ 41,665 | \$ 23,067 | \$ 122,739 |
| Fund Balance at Beginning of Year | (54,025) | 540,842 | 29,444 | 516,261 |
| Transfers of Assets | <u>(11,490)</u> | <u>34,001</u> | <u>(22,511)</u> | <u>-</u> |
| Fund Balance at End of Year | <u>\$ (7,507)</u> | <u>\$ 616,509</u> | <u>\$ 30,000</u> | <u>\$ 639,002</u> |

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended July 31, 2016

| | Operating Fund | Capital Reserve Fund | Designated Grant Fund |
|--|-------------------|----------------------------|-----------------------------|
| OPERATING ACTIVITIES | | | |
| Excess (Deficiency) of Revenues over Expenses | \$ 43,120 | \$ 56,553 | \$ 23,067 |
| Adjustments to reconcile Net Income to net cash provided by operations: | | | |
| (Increase)/Decrease in Accounts Receivable | - | (4,268) | (22,000) |
| Depreciation Expense | 14,888 | 25,046 | - |
| Increase/(Decrease) in Accounts Payable | 2,692 | (2,295) | 42,000 |
| Increase/(Decrease) in Prepaid Assessments & Fees | 59,700 | 3,560 | - |
| Net Cash provided (used) by Operating Activities | <u>120,400</u> | <u>78,596</u> | <u>43,067</u> |
| INVESTING ACTIVITIES | | | |
| Cash Used for Acquisition of Assets | - | (126,786) | - |
| Net Cash provided (used) by Investing Activities | - | (126,786) | - |
| FINANCING ACTIVITIES | | | |
| (Decrease) in Spillway Diversion Note Loans | (24,462) | - | - |
| Increase/(Decrease) in Interfund Loans | (12,822) | 12,822 | - |
| Net Cash provided (used) by Financing Activities | <u>(37,284)</u> | <u>12,822</u> | <u>-</u> |
| TRANSFERS BETWEEN FUNDS | | | |
| | (11,490) | 34,001 | (22,511) |
| Net Cash increase (decrease) for Year | 71,626 | (1,367) | 20,556 |
| Cash at July 31, 2015 | <u>77,102</u> | <u>87,081</u> | <u>9,444</u> |
| Cash at July 31, 2016 | <u>\$ 148,728</u> | <u>\$ 85,714</u> | <u>\$ 30,000</u> |

FALLS CREEK RANCH ASSOCIATION, INC.
Notes to Financial Statements
Year Ended July 31, 2016

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. As of July 31, 2016, 91 lots were improved, and 9 lots remain 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.

Accounting Method Change – Balance Sheet Fund Presentation

On August 1, 2015, the Association began segregating its Assets and Liabilities according to Fund Accounting principles. The new method provides greater clarity in the financial statements regarding the sources and restrictions of Assets and related Liabilities. This change has no effect on assets, liabilities, or net revenues and expenditures.

Accounting Method Change – Grant Fund Revenue Recognition

On August 1, 2015, the Association changed its method of recognizing grant revenues. Under the new method, grant revenues are recognized as reimbursable expenses are incurred. In all prior years, grant income was recognized as the grants were funded. The new method of accounting for grant revenues was adopted because it more closely matches grant revenues with expenditures. The effect of the change is to reflect \$20,000 less revenue in the year ended July 31, 2016. If the change had been applied in the previous year, \$20,000 more revenue would have been accrued as of July 31, 2015.

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, 2016, all assessments for the year had been collected.

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.

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, 2016, 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.

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, 2016 was \$39,934.

"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. 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 filed its income tax returns for the year ended July 31, 2016 on October 3, 2016. The Association qualifies as a tax-exempt homeowners' association under IRC Sec. 528 for the year ended July 31, 2016. 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, 2013, 2014, 2015, and 2016 remain open to examination by the Internal Revenue Service; state income tax returns for years ended in 2012, 2013, 2014, 2015, and 2016 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 \$85,714 as of July 31, 2016, 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, 2016, the Association's long-term liabilities from borrowings for the Spillway Diversion Project, totaling \$80,000, consisted of the following:

\$25,000 consisting of 3 member notes with an interest rate of 3.5% and maturity date of June 1, 2017

\$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 \$537.50 is accrued as of July 31, 2016.

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, 2016, 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, 2016, the Association has incurred expenditures of \$111,190, and been reimbursed a total of \$107,190, with \$4,000 reimbursement pending. An additional \$4,010 of the grant is available for future work as of July 31, 2016.

The Association has been awarded a Colorado Department of Natural Resources fire mitigation grant of \$2,750. As of July 31, 2016, no expenditures have been incurred nor reimbursed.

The Association was awarded a Colorado Department of Natural Resources grant of \$23,000 to be used toward the purchase of an Air Curtain Burner, which is a piece of equipment that accommodates low-emissions burning of mitigated forest fuels. The Burner costed a total of \$30,000, of which \$7,000 was paid from the Association's Operating Fund, and the remaining \$23,000 was reimbursed by the grant.

The Association was awarded a Safe Passage grant of \$10,860, for the purpose of clearing encroaching trees and brush from County Road 205. No expenditures are as yet incurred, nor reimbursements received.

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, 2016, the Association has incurred expenditures of \$45,000, and been reimbursed a total of \$30,000, with \$15,000 reimbursement pending. An additional \$5,000 of the grant remains available for future work as of July 31, 2016.

Spillway Diversion Project

The Association has undertaken to replace the outflow spillway from its community-owned lake. The project is expected to cost a total of \$128,470. As of July 31, 2016, the total costs incurred have been \$99,474.

Falls Creek Ranch Association, Inc.
 Unaudited Supplementary Information
 Schedule of Future Major Repairs and Replacements
 As of July 31, 2016

| Name | Acquisition Date | Original Cost | Useful | | Replacement Cost Estimate |
|---|---------------------|---------------|---------------|----------------------|------------------------------|
| | | | Life (yrs) | Remain Life (yrs) | |
| Replacement of Ranch House Foundation | 1999 | 20,000 | 40 | 24 | 25,000 |
| Ranch House Garage | 2006 | 38,625 | 75 | 56 | 50,000 |
| Ranch House Garage Roof | 2006 | 7,725 | 20 | 11 | 10,000 |
| Ranch House Improvements | 2008 | 5,400 | 10 | 3 | 10,000 |
| Ranch House (siding, paint, roof repair) | 2011 | 21,780 | 20 | 16 | 25,000 |
| Equipment Shed-First Bay | 1983 | 19,300 | 50 | 18 | 10,000 |
| Mailbox Shed | 1987 | 3,500 | 50 | 22 | 10,000 |
| Equipment Shed-Second Bay | 8900 | 8,900 | 50 | 23 | 10,000 |
| Equipment Shed-Third Bay | 2003 | 12,000 | 50 | 38 | 10,000 |
| Record Shed | 2005 | 10,000 | 50 | 40 | 15,000 |
| Sand Shed Construction | 2010 | 12,910 | 50 | 45 | 15,000 |
| Guardrail on Falls Creek Main-1 | 2004 | 4,325 | 30 | 20 | 8,000 |
| Guardrail on Falls Creek Main-2 | 2009 | 6,000 | 30 | 24 | 8,000 |
| Water Tanks (2) | 1993 | 10,000 | 40 | 18 | 60,000 |
| Water System Piping | 1993 | 30,000 | 40 | 18 | 60,000 |
| Well #1 Pump Replacement (5hp) | 1998 | 5,000 | 15 | 1 | 6,000 |
| Well #2 Pump Replacement (2hp) | 2000 | 3,200 | 7 | 7 | 6,000 |
| SCADA Computer & Data System | 2003 | 45,000 | 15 | 2 | 50,000 |
| Well #4 (pump, casing, drilling, testing) | 2005 | 85,000 | 15 | 5 | 100,000 |
| Water Disinfection Project-1 | 2012 | 80,000 | 30 | 27 | 100,000 |
| Water Disinfection Project-2 | 2013 | 100,000 | 30 | 28 | 100,000 |
| Used Dump Truck | 1989 | 69,500 | 28 | 14 | 30,000 |
| Used Grader | 1992 | 59,000 | 24 | 19 | 44,000 |
| Used Zetor Tractor | 2001 | 21,000 | 18 | 14 | 25,000 |
| Used 2006 GMC Pickup | 2009 | 12,300 | 10 | 4 | 15,000 |
| Lower Tank Renovation | Oct-15 | 15,000 | 10 | 10 | 15,000 |
| Upper Tank Renovation | Oct-15 | 14,640 | 10 | 10 | 14,640 |
| Tank Site Level Gauge | Oct-15 | 2,195 | 15 | 15 | 2,195 |
| Fire Hydrant | Nov-15 | 5,000 | 20 | 20 | 5,000 |
| Backhoe | Dec-15 | 41,265 | 20 | 20 | 41,265 |
| Lower PWT Building Backup Generator | Dec-15 | 7,756 | 10 | 10 | 7,756 |
| Upper PWT Building Backup Generator | Dec-15 | 6,929 | 10 | 10 | 6,929 |
| Air Curtain Burner | May-16 | 30,000 | 15 | 15 | 30,000 |
| Backhoe Thumb | Jul-16 | 4,001 | 20 | 20 | 4,001 |
| Totals | | \$ 817,251 | | | \$ 928,786 |