

**Falls Creek Ranch Association, Inc.
Financial Statements and
Supplementary Information
Year Ended July 31, 2020**

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

DRAFT AS OF 2021-02-28

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, 2020, 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 28, 2021

DRAFT AS OF 2021-02-28

FALLS CREEK RANCH ASSOCIATION, INC.
Balance Sheet by Fund
As of July 31, 2020

	<u>Operating</u>	<u>Capital</u>	<u>Grants</u>	<u>Total</u>
ASSETS				
Current Assets				
Cash in Bank	\$ 26,597	\$ 314,960	\$ 28,202	\$ 369,758
Accounts Receivable, Net	1,199	301	0	1,500
Due Between Funds	456	39,699		40,155
Total Current Assets	<u>28,252</u>	<u>354,960</u>	<u>28,202</u>	<u>411,413</u>
Property, Plant, & Equipment				
Buildings & Bldg Improvements	0	190,107	0	190,107
Roads & Road Improvements	0	226,888	0	226,888
Vehicles & Equipment	0	299,827	0	299,827
Lake, Utilities & Improvements	0	815,179	0	815,179
Total P,P, & E (at Original Cost)	<u>0</u>	<u>1,532,001</u>	<u>0</u>	<u>1,532,001</u>
Accumulated Depreciation	0	(845,417)	0	(845,417)
Total Property, Plant, & Equipment, Net of Depreciation	<u>0</u>	<u>686,584</u>	<u>0</u>	<u>686,584</u>
TOTAL ASSETS	<u><u>\$ 28,252</u></u>	<u><u>\$ 1,041,542</u></u>	<u><u>\$ 28,202</u></u>	<u><u>\$ 1,097,997</u></u>
LIABILITIES & FUND BALANCES				
Liabilities				
Current Liabilities				
Accounts Payable	\$ 6,395	\$ 22,895	1,271	\$ 30,561
Prepaid Assessments & Billings	6,300	0	0	6,300
Due Between Funds	39,699		456	40,155
Current Portion of Long-Term Debt	0	31,388	0	31,388
Total Current Liabilities	<u>52,394</u>	<u>54,283</u>	<u>1,727</u>	<u>108,404</u>
Long Term Liabilities				
Loans from Property Owners	0	51,388	0	51,388
Less Current Portion	0	(31,388)	0	(31,388)
Total Long Term Liabilities	<u>0</u>	<u>20,000</u>	<u>0</u>	<u>20,000</u>
Total Liabilities	<u>52,394</u>	<u>74,283</u>	<u>1,727</u>	<u>128,404</u>
Total Fund Balances	<u>(24,142)</u>	<u>967,259</u>	<u>26,475</u>	<u>969,592</u>
TOTAL LIABILITIES & FUND BALANCES	<u><u>\$ 28,252</u></u>	<u><u>\$ 1,041,542</u></u>	<u><u>\$ 28,202</u></u>	<u><u>\$ 1,097,996</u></u>

DRAFT AS OF 2021-02-28

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Revenues, Expenses, and Changes in Fund Balances
For the year ended July 31, 2020

	<u>Operating</u>	<u>Capital</u>	<u>Grants</u>	<u>TOTAL</u>
Revenues				
Assessments				
Improved Lots	\$ 244,325	\$ 37,675	\$ -	\$ 282,000
Unimproved Lots	15,075	2,325	-	17,400
Total Assessments	<u>259,400</u>	<u>40,000</u>	-	<u>299,400</u>
Road Easements	100			
Water Billing Service Fee	29,815	30,000	-	59,815
Water Usage Charge	-	33,916	-	33,916
Voluntary Homeowner Contributions	9,706			9,706
Misc. Income	9,181	-	-	9,181
Grant Income	-	-	7,812	7,812
Interest Income	16	29	3	48
High Meadow Fees	2,864			2,864
Watson Property Fees	388			388
Total Revenues	<u>311,470</u>	<u>103,945</u>	<u>7,815</u>	<u>423,230</u>
Expenses				
Community Garden Expenses	5,201			5,201
Water Recovery Task Force	14,123			14,123
Fire Recovery	846			846
Caretaker & Help	92,343	-	-	92,343
Ranch House	1,080	-	-	1,080
Equipment Shed	3,582	-	-	3,582
Beautification Committee	180	-	-	180
Lakeside Committee	21,680	-	-	21,680
Roads Committee	26,486	-	-	26,486
Firewise Program	777	-	9,010	9,787
Utilities Committee	26,894	-	-	26,894
Common Property	30,054	-	456	30,510
Equipment Operations	15,752	-	-	15,752
Liability, Prop, DO Insurance	19,203	-	-	19,203
Accounting	13,522	-	-	13,522
Dumpsters	15,079	-	-	15,079
Activities	200	-	-	200
Board Operations	8,117	-	-	8,117
Note Interest Expense		1,755	-	1,755
Dam Committee	2,673	-	-	2,673
Depreciation Expense	-	52,083	-	52,083
Total Expenses	<u>297,792</u>	<u>53,838</u>	<u>9,466</u>	<u>361,096</u>
Excess (Deficiency) of Revenues over Expenses	\$ 13,678	\$ 50,106	\$ (1,651)	\$ 62,133
Fund Balance at Beginning of Year	902	878,431	28,126	907,458
Transfers of Assets	<u>(38,722)</u>	<u>38,722</u>	-	-
Fund Balance at End of Year	<u>\$ (24,142)</u>	<u>\$ 967,259</u>	<u>\$ 26,475</u>	<u>\$ 969,592</u>

DRAFT AS OF 2021-02-28

FALLS CREEK RANCH ASSOCIATION, INC.
Statement of Cash Flows
For the Year Ended July 31, 2020

	Operating Fund	Capital Reserve Fund	Designated Grant Fund
OPERATING ACTIVITIES			
Excess (Deficiency) of Revenues over Expenses	\$ 13,678	\$ 50,107	\$ (1,651)
Adjustments to reconcile Net Income to net cash provided by operations:			
(Increase)/Decrease in Accounts Receivable	(1,199)	(301)	-
(Increase)/Decrease in Due from Other Fund	3,752	736	-
Depreciation Expense	-	52,083	-
(Gain)/Loss on Disposition of Assets	-	-	-
Increase/(Decrease) in Accounts Payable	3,467	20,496	1,082
Increase/(Decrease) in Due to Other Fund	(301)	-	(4,187)
Increase/(Decrease) in Prepaid Assessments & Fees	3,800	-	-
	<hr/>	<hr/>	<hr/>
Net Cash provided (used) by Operating Activities	23,197	123,121	(4,756)
INVESTING ACTIVITIES			
Cash (Used) for Acquisition of Assets	-	(90,992)	-
	<hr/>	<hr/>	<hr/>
Net Cash provided (used) by Investing Activities	-	(90,992)	-
FINANCING ACTIVITIES			
Increase/(Decrease) in Property Owner Notes	-	(94)	-
	<hr/>	<hr/>	<hr/>
Net Cash provided (used) by Financing Activities	-	(94)	-
TRANSFERS BETWEEN FUNDS			
	(38,722)	38,722	-
	<hr/>	<hr/>	<hr/>
Net Cash increase (decrease) for Year	(15,525)	70,757	(4,756)
Cash at July 31, 2019	42,122	244,203	32,958
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Cash at July 31, 2020	<u>\$ 26,597</u>	<u>\$ 314,960</u>	<u>\$ 28,202</u>

DRAFT AS OF 2021-02-28

FALLS CREEK RANCH ASSOCIATION, INC.
Notes to Financial Statements
Year Ended July 31, 2020

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, 2020, 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, 2020, \$1,500 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, the unused portion of 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. In the year ended July 31, 2020, \$7,812 of grants was earned and 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, 2020, 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, 2020.

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, 2020 was \$52,083.

“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, 2020, no assets have been disposed, and thus no gain or loss was recognized.

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, 2021. The Association qualifies as a tax-exempt homeowners’ association under IRC Sec. 528 for the year ended July 31, 2020. 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 4.50% 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, 2017, 2018, 2019, and 2020 remain open to examination by the Internal Revenue Service; state income tax returns for years ended in 2016 through 2020 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 \$314,960 as of July 31, 2020, 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.

In October 2018, the Association issued unsecured promissory notes to members totaling \$50,000 to finance the purchase of real property easements to provide access to additional domestic water resources. The notes consist of \$30,000 of two-year notes with an interest rate of 3.5% and maturity date of October 12, 2020, and \$20,000 of three-year notes with an interest rate of 4.0% and a maturity date of October 12, 2021.

Unpaid interest in the amount of \$1,388 is accrued as of July 31, 2020.

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. The Association employs part-time summer works who are also covered by the worker's compensation policy. As of July 31, 2020, 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 a percentage of matching cash and matching volunteer hours of mitigation work. Typically, we do not include the value of volunteer hours in our financial records.

The Association was awarded a \$500 grant from National Fire Protection Association and State Farm Insurance for Wildfire Preparedness Week. Proceeds were used to purchase compostable paper lawn bags for pine needles, cones, and leaves to be disposed of in our air curtain burner.

The Association was awarded a Capacity Building Fuels and Forest Health Projects Grant by Colorado State Forest Service in the amount of \$18,250 for the purchase of a used towable woodchipper. The chipper was purchased with matching cash from Association Operating Funds and matched in part by volunteer hours spent operating the chipper. It was also shared to three other neighborhoods, including the City of Durango for chipper days.

The Association was awarded a Forest Restoration and Wildfire Mitigation Grant by Colorado State Forest Service in the amount of \$21,000 for mitigation work on Common Property. It was matched with cash from Association Operating funds and with volunteer hours.

Note 9 – Subsequent Events

The Association has evaluated subsequent events through the date of issuance of these Financial Statements and has determined that no events have occurred that would require adjustments to or disclosures in the Financial Statements.

Statement on COVID-19 Pandemic

The Association has considered the effects of the COVID-19 pandemic.

The COVID-19 Pandemic brought many non-residents to the Ranch who wanted to use the private beach, lake, and fishing resources since area public lakes were closed, drained, or overcrowded. After several instances of residents being threatened by trespassers at the lake, the Association hired a private security guard for several months to direct the public away from the Ranch and admit only residents and their guests. This was an unbudgeted expense but was primarily covered in operating funds set aside for Board Professional Services. It is not known if a security guard or a mechanical gate may be needed in the future to maintain the private lake, roads, trails, and Common Property.

Apart from the above, as of the date of issuance of these Financial Statements the Association has determined that the pandemic poses no material risk to the operations or viability of the Association that would require adjustments to or disclosures in the Financial Statements.

Falls Creek Ranch Association, Inc.
 Unaudited Supplementary Information
 Schedule of Future Major Repairs and Replacements
 As of July 31, 2020

Name	Acquisition		Useful		Replacement
	Date	Original Cost	Life (yrs)	Remain Life (yrs)	Cost Estimate
Replacement of Ranch House Foundation	1999	20,000	40	18	25,000
Ranch House Garage	2006	38,625	75	60	50,000
Ranch House Garage Roof	2006	7,725	20	5	10,000
Ranch House Improvements	2008	5,400	10	0	10,000
Ranch House (siding, paint, roof repair)	2011	21,780	20	11	25,000
Equipment Shed-First Bay	1983	19,300	50	13	10,000
Mailbox Shed	1987	3,500	50	17	10,000
Equipment Shed-Second Bay	2003	8,900	50	33	10,000
Equipment Shed-Third Bay	2003	12,000	50	33	13,000
Record Shed	2005	10,000	50	35	15,000
Sand Shed Construction	2010	12,910	50	40	15,000
Guardrail on Falls Creek Main-1	2004	4,325	30	14	6,000
Guardrail on Falls Creek Main-2	2009	6,000	30	19	8,000
Water Tanks (2)	1993	10,000	40	13	60,000
Water System Piping	1993	30,000	40	13	60,000
SCADA Computer & Data System	2003	45,000	15	0	50,000
Well #4 (pump, casing, drilling, testing)	2005	85,000	15	0	100,000
Water Disinfection Project-1	2012	80,000	30	22	100,000
Water Disinfection Project-2	2013	100,000	30	24	100,000
Used Dump Truck	1989	69,500	28	0	30,000
Used Grader	1992	85,000	24	15	100,000
Used Zetor Tractor	2001	21,000	18	0	25,000
Lake Spillway/Valve	2014	115,000	40	34	120,000
Lower Tank Renovation	2015	15,000	10	5	15,000
Upper Tank Renovation	2015	14,640	10	5	14,640
Tank Site Level Gauge	2015	2,195	15	10	2,195
Fire Hydrant	2015	5,000	20	15	5,000
Backhoe	2015	41,265	20	15	41,265
Lower PWT Building Backup Generator	2015	7,756	10	5	7,756
Upper PWT Building Backup Generator	2015	6,929	10	5	6,929
14 ft Dump Trailer	2016	7,200	12	8	7,200
DR Tow-Behind Brush Mower	2016	4,195	10	6	5,000
Kubota RTV	2016	13,000	12	8	15,000
Air Curtain Burner	2017	30,000	15	12	30,000
Backhoe Thumb	2017	4,001	20	17	4,001
Snow Plow	2017	7,526	10	7	7,526
Culverts	2017	6,225	30	27	6,225
2012 Dodge Ram	2017	21,000	10	7	21,000
Fire Hydrant	2017	4,265	20	17	4,265
Water Meter Reader	2018	6,884	5	3	6,884
Pump, Well #2	2018	2,617	5	3	2,617
Culverts	2019	8,062	5	3	8,062
Road Sander	2019	7,162	7	6	7,162
Pump, Well #1	2019	8,846	5	4	8,846
Vermeer Chipper	2020	34,000	15	15	35,000
Mailboxes	2020	8,420	25	25	10,000
Lake Aeration System	2020	12,022	7	7	13,000
Totals		<u>\$ 1,089,175</u>		654	<u>\$ 1,236,573</u>

See Accompanying Accountant's Review Report

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