

**Falls Creek Ranch Association, Inc.**  
**Accounting, Budgeting and Financial Reporting Policies**  
**Effective 1/30/2023**

CPA and bookkeeping services provided by FredrickZink and Associates, Certified Public Accountants. 954 E 2<sup>nd</sup> Avenue, Ste 201, Durango CO 81301. A change in CPA or Bookkeeper (bonded) will require board approval.

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**ACCOUNTING POLICIES:**

**Fiscal Year**

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

**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 or incurred, whether paid or not.

Example: Annual dues assessments are generally received in August (beginning of fiscal year) for those making one payment, or one-half in August and one-half in February for those paying in two installments. Under the accrual basis, total annual dues are recorded on the Balance Sheet at the beginning of year as Accounts Receivable (asset) with an offsetting entry to Unearned Assessments (liability). 1/12<sup>th</sup> of the total dues are then recorded as revenue each month (a debit entry to Unearned Assessments and a credit entry to Revenues) regardless of when payments are received. As payments come in, they are debited to Cash and credited to Accounts Receivable. The result being a much more accurate reflection of net income each month and month-to-date.

### Capitalization Policy

- **Financial Reporting** - The Association's policy is to capitalize personal property and equipment that has a cost of \$5,000 or higher and estimated useful life of three or more years. Expenditures less than \$5,000 or with a useful life of less than three year shall be expensed in the fiscal year incurred.
  
- **Reserve Component Asset** – For purposes of reserve funding (for future repairs / replacement of existing capital assets) the Association’s policy is to include in a Reserve Component List only those assets that meet the following criteria:
  1. Are a common property maintenance responsibility
  2. Have a limited life
  3. Have a predictable remaining life
  4. Have a minimum threshold cost of \$5,000.
  
- **A Fixed Asset Depreciation Schedule** shall be maintained for all expenditures capitalized for financial reporting. Those capitalized assets (shown on the Fixed Asset Depreciation Schedule) that meet the criteria for inclusion on the Reserve Component List shall be added to the Reserve Component List each year when that list is updated during the budget preparation process.

### Fund Accounting

The Association maintains its accounts using fund accounting. Financial resources are classified for accounting and financial reporting in the following funds (also known as “Classes”) 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 existing common property elements.

**Grant Reserve Fund** - this fund is used to account for restricted grant resources available for those specific needs and requirements associated with specific grants. Funds shall be moved from this fund to the Operating Fund by the amount this account exceeds \$30,000. The grant fund holds \$30,000 from Operating Fund cash which will be returned to the Operating Fund upon the eventual dissolution of the Grant Fund.

## **BUDGETING POLICIES:**

Budgets shall be prepared on the Fund Accounting basis with separate sections for Operating Fund, Reserve Fund and Grant Fund.

**Income:** Total HOA dues assessments shall be allocated between the Operating Fund and the Reserve Fund based on the approved Reserve Funding plan for that budget year. Water system billing income is based on current rates including a monthly base service rate and monthly usage rates. The base service rate income shall be allocated 100% to the Reserve Fund. As of FY 22-23, the monthly base fee is \$50/mo/lot plus the horse stable (\$50x12x101=\$60,600/year). The total water usage fee income shall be allocated as Operating Fund income.

**Donations:** Falls Creek Ranch may accept financial donations from its members. Donors may stipulate such funds for general Ranch use or for specific projects. Homeowners donating to FCR cannot deduct these donations on their tax return. Donations received will be reflected as “miscellaneous income” on FCR’s monthly financial reports. Donations shall only be used for Ranch operations support.

The Board shall acknowledge receipt of the donation in writing to the donor. This shall include the donation amount, date received and how the donation shall be spent. A copy of this communication shall be provided to the FCR accountant and to the FCR Treasurer for financial recordkeeping.

FCR shall not use any HOA-related income for donations to charitable organizations. FCR may collect funds for such a purpose separately, identified as such to its members.

**Operating Expenditures:** Budgeted operating expenses reflect all anticipated expenses required for day-to-day operations of FCR (goods, services, labor). The Board recognizes that budgeted line items may need to be adjusted during the year within committees or the total budget to accommodate unexpected expenses. Such adjustments are to be approved by the Board. Payroll expenses include full-time regular, part-time and seasonal employees. These expenses are budgeted and expensed within the line item where their effort is spent (i.e., Caretaker, common property, lake, dam, fire mitigation or grants). Timekeeping records are maintained for these employees. FCR contracts with The Payroll Department in Durango, CO to process the appropriate payments and deductions. Contractors are paid through their employer per contractor agreements.

Approved expenditures paid for by residents will be reimbursed after submittal of receipts and the Expense Reimbursement Form (available on the FCR website).

The Treasurer coordinates the annual budget planning process with each Committee Chair to determine current fiscal year projected expenses for year-end as well as proposed

expense budget for the next fiscal year. All Board members provide input, review and approval of the budget for recommendation to the members. This process begins early April and is completed by June 1 for distribution to the members in preparation for acceptance at the annual meeting held each July.

**Capital Expenditures:** Budgeted capital projects (see Capitalization Policy) that repair or replace an existing Reserve Component asset included in the Reserve Component List shall be included in the Reserve Fund budget section as an authorized use of reserve funds as per the Reserve Policy. All other budgeted capital projects (not meeting that criteria) shall be paid for out of operating funds and included in the Operating Fund section.

All budgeted capital projects shall use an assigned account code that will differentiate it from operating expenditures.

**Projected end of budget year cash balances:** Shall be included in each budget fund section. This is to determine if budgeted income less budgeted expenditures (capital, operating and grant expenses) plus beginning cash in the bank will result in a positive end of budget year cash balance. This assumes “actual” expenditures incurred are close to “budgeted” and there are no significant “budget variances”.

**Surplus Funds:** CCIOA (Colorado Common Interest Ownership Act) Sec. 38-33.3-314 states: Surplus funds. Unless otherwise provided in the declaration, any surplus funds of the association remaining after payment of or provision for common expenses and any prepayment of or provision for reserves shall be paid to the unit owners in proportion to their common expense liabilities or credited to them to reduce their future common expense assessments. FCR Covenant #28 states that the annual estimated budget “shall subtract from such estimate an amount equal to the anticipated balance in the operating fund at the start of such fiscal year... attributable to fees and assessments received for the prior year.” Our historical practice of keeping our budgets and assessments reasonable for our estimated expenses, while maintaining a reasonable carryover cash balance to cover operating expenses, meets both of these requirements.

**Grants:** All requests to submit grant applications must be approved by the Board. Grant income is received from granting agencies that partner with FCR for approved Ranch projects. At this time, grants are applied for and received for fire mitigation and forest health projects including contractors, vendors, labor, equipment and supplies. Grants may be for one-five year periods. These funds are accounted for separately from FCR operating and capital funds but operating funds may be used for “matching” funds as required by the granting agencies. Volunteer hours value are also allowed as “matching” funds to grants. Grant revenues are recognized as earned and receivable when grant expense reimbursements are received by FCR. Grant funds are often spent in one fiscal year and reimbursed in the following fiscal year due to grant agency practices. FCR cooperates with other HOAs to allow the use of our mitigation equipment and operator in

exchange for operation expense payment; these payments are recorded in “Miscellaneous Income”.

### **FINANCIAL REPORTING POLICIES:**

Falls Creek Ranch contracts with a Certified Public Accounting firm to provide routine financial transactional and reporting services on a monthly basis. This contract is reviewed and renewed annually. The FCR Treasurer is the primary contact with the CPA firm. The monthly reports consist of a) Statement of Assets, Liabilities and Fund Balances by the three funds referenced above, b) Statement of Revenues and Expenditures for the month and year-to-date for each of the three funds, and c) Budget to Actual for the month and year-to-date. Other services include invoicing for HOA assessments, collection of water receipts and bank receipts, recording and depositing other member payments, preparing annual tax returns and any other non-routine service as requested.

The above financial reports are reviewed and accepted by the Board on a monthly basis at each Board meeting. Once accepted, the reports are posted on a quarterly basis to the Association website.

**Income tax:** 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. FCR qualifies as a tax-exempt homeowners’ association under IRC Section 528. 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. The Association’s tax returns are to be filed by November 15 annually for the preceding fiscal year.

*Approved January 29, 2023  
Falls Creek Ranch Board of Directors*