

RANCH AT ROARING FORK HOMEOWNERS ASSOCIATION

**Audit Report
Financial Statements
and
Supplemental Information
*December 31, 2022***

PORTER & LASIEWICZ, CPAs
Certified Public Accountants

Board of Directors and Members

Ranch at Roaring Fork Homeowners Association
Carbondale , CO

Independent Auditors' Report**Opinion**

We have audited the accompanying financial statements of Ranch at Roaring Fork Homeowners Association, a non-profit corporation, which comprise the balance sheet as of December 31, 2022, and the related statements of revenues and expenses and changes in fund balances, and cash flows for the year then ended, and the related notes to financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ranch at Roaring Fork Homeowners Association as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ranch at Roaring Fork Homeowners Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ranch at Roaring Fork Homeowners Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ranch at Roaring Fork Homeowners Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ranch at Roaring Fork Homeowners Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information regarding replacement fund balances on page 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Porter & Lasiewicz, CPAs

December 5, 2023

Simi Valley, CA

Ranch at Roaring Fork Homeowners Association

Balance Sheet

As of December 31, 2022

| | Operating Fund | Replacement Fund | Loan Fund | Total Funds |
|---|---------------------|---------------------|--------------------|---------------------|
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$ 841,518 | \$ 384,702 | \$ 456,146 | \$ 1,682,366 |
| Investment in Equity Securities | - | 72,813 | - | 72,813 |
| Investment in Debt Securities | - | 171,689 | - | 171,689 |
| Assessments Receivable | 45,609 | - | - | 45,609 |
| Prepaid Expense | 4,025 | - | - | 4,025 |
| Property and Equipment, Net of Accumulated Depreciation of \$3,185,612 | 1,877,671 | - | - | 1,877,671 |
| Due To / From Other Fund | 44,899 | (13,295) | (31,604) | - |
| Total Assets | <u>\$ 2,813,722</u> | <u>\$ 615,909</u> | <u>\$ 424,542</u> | <u>\$ 3,854,173</u> |
| <u>LIABILITIES and FUND BALANCES</u> | | | | |
| Accounts Payable | \$ 4,517 | \$ - | \$ - | \$ 4,517 |
| Accrued Payroll | 5,951 | - | - | 5,951 |
| Prepaid Assessments | 20,399 | - | - | 20,399 |
| Sales Tax Payable | 817 | - | - | 817 |
| Construction Fund Escrow | 500 | - | - | 500 |
| Other Deferred Revenue | 19,980 | - | - | 19,980 |
| Deferred Revenue - Replacement Fund | - | 579,910 | - | 579,910 |
| Notes Payable | - | - | 2,509,085 | 2,509,085 |
| Total Liabilities | <u>52,164</u> | <u>579,910</u> | <u>2,509,085</u> | <u>3,141,159</u> |
| Designated for Property and Equipment | 1,877,671 | - | - | 1,877,671 |
| Operating Fund Balance | 883,887 | - | - | 883,887 |
| Replacement Fund Balance | - | 35,999 | - | 35,999 |
| Loan Fund (Deficit) | - | - | (2,084,543) | (2,084,543) |
| Fund Balances (Deficit) | <u>2,761,558</u> | <u>35,999</u> | <u>(2,084,543)</u> | <u>713,014</u> |
| Total Liabilities and Fund Balances | <u>\$ 2,813,722</u> | <u>\$ 615,909</u> | <u>\$ 424,542</u> | <u>\$ 3,854,173</u> |

See Auditors' Report

The Accompanying Notes are an Integral Part of These Financial Statements

Ranch at Roaring Fork Homeowners Association
Statement of Revenues and Expenses and Changes in Fund Balances
For the Year Ended December 31, 2022

| | Operating Fund | Replacement Fund | Loan Fund | Total Funds |
|--|---------------------|---------------------|-----------------------|-------------------|
| <u>REVENUES</u> | | | | |
| Assessments | \$ 756,214 | \$ 131,384 | \$ 500,974 | \$ 1,388,572 |
| Investment Income | 3,391 | 5,826 | - | 9,217 |
| Golf Operations | 260,100 | - | - | 260,100 |
| Fishing Operations | 102,730 | - | - | 102,730 |
| Equestrian Operations | 48,538 | - | - | 48,538 |
| Other Income | 177,479 | - | - | 177,479 |
| Total Revenues | <u>1,348,452</u> | <u>137,210</u> | <u>500,974</u> | <u>1,986,636</u> |
| <u>EXPENSES</u> | | | | |
| <u>General and Administrative Expenses</u> | | | | |
| Insurance | 46,603 | - | - | 46,603 |
| Audit and Tax Preparation | 28,396 | - | - | 28,396 |
| Legal Fees | 62,359 | - | - | 62,359 |
| Depreciation | 164,945 | - | - | 164,945 |
| Other General and Administrative | 107,700 | - | - | 107,700 |
| Utilities | 32,803 | - | - | 32,803 |
| Building and Road | 45,971 | - | - | 45,971 |
| Equipment | 36,199 | - | - | 36,199 |
| Hayfield | 1,267 | - | - | 1,267 |
| Grounds | 340,225 | - | - | 340,225 |
| Water/Waste Water | 67,666 | - | - | 67,666 |
| Waterways | 5,251 | - | - | 5,251 |
| Golf Course Maintenance | 15,793 | - | - | 15,793 |
| Fishery Maintenance | 64,897 | - | - | 64,897 |
| Equestrian | 13,467 | - | - | 13,467 |
| Payroll | 295,877 | - | - | 295,877 |
| Unrealized Loss on Equity Securities | - | 2,150 | - | 2,150 |
| Major Repairs and Replacements | - | 131,384 | 2,585,517 | 2,716,901 |
| Total Expenses | <u>1,329,419</u> | <u>133,534</u> | <u>2,585,517</u> | <u>4,048,470</u> |
| Excess of Revenues Over Expenses | 19,033 | 3,676 | (2,084,543) | (2,061,834) |
| <u>Other Comprehensive Income</u> | | | | |
| Unrealized Loss on Debt Securities | - | (21,358) | - | (21,358) |
| Total Other Comprehensive Income | - | (21,358) | - | (21,358) |
| Total Comprehensive Income | 19,033 | (17,682) | (2,084,543) | (2,083,192) |
| Fund Balances, Beginning of Year | 699,909 | 2,096,297 | - | 2,796,206 |
| Prior Period Adjustment | 2,042,616 | (2,042,616) | - | - |
| Fund Balance (Deficit), Beginning of Year Restated | 2,742,525 | 53,681 | - | 2,796,206 |
| Fund Balances, End of Year | <u>\$ 2,761,558</u> | <u>\$ 35,999</u> | <u>\$ (2,084,543)</u> | <u>\$ 713,014</u> |

Ranch at Roaring Fork Homeowners Association

Statement of Cash Flows

For the Year Ended December 31, 2022

| | Operating Fund | Replacement Fund | Loan Fund | Total Funds |
|---|-------------------|---------------------|----------------|----------------|
| <u>Cash Flows From Operating Activities:</u> | | | | |
| Excess of Revenues Over Expenses | \$ 19,033 | \$ 3,676 | \$ (2,084,543) | \$ (2,061,834) |
| <u>Adjustments to Reconcile Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities:</u> | | | | |
| Depreciation | 164,945 | - | - | 164,945 |
| <u>Change in Assets and Liabilities:</u> | | | | |
| (Increase) in Assessments Receivable | (37,204) | - | - | (37,204) |
| (Increase) in Prepaid Expenses | (4,025) | - | - | (4,025) |
| (Decrease) in Accounts Payable | (57,708) | - | - | (57,708) |
| (Decrease) in Accrued Payroll | (792) | - | - | (792) |
| Increase in Prepaid Assessments | 20,399 | - | - | 20,399 |
| Increase in Deferred Revenue - Replacement Fund | - | 94,516 | - | 94,516 |
| Total Adjustments | 85,615 | 94,516 | - | 180,131 |
| Cash Provided By Operations | 104,648 | 98,192 | (2,084,543) | (1,881,703) |
| <u>Cash Flows from Investing Activities:</u> | | | | |
| Proceeds from Maturities of Investments | - | 29,865 | - | 29,865 |
| Purchases of Investments | - | (12,581) | - | (12,581) |
| Unrealized Loss on Debt Securities | - | (21,358) | - | (21,358) |
| Cash (Used) By Investing Activities | - | (4,074) | - | (4,074) |
| <u>Cash Flows from Financing Activities:</u> | | | | |
| Proceeds From Long Term Debt | - | - | 2,509,085 | 2,509,085 |
| Interfund Borrowings Between Funds | 16,517 | (48,121) | 31,604 | - |
| Cash Provided (Used) By Financing Activities | 16,517 | (48,121) | 2,540,689 | 2,509,085 |
| Net Increase In Cash | 121,165 | 45,997 | 456,146 | 623,308 |
| Cash, Beginning of Year | 720,353 | 338,705 | - | 1,059,058 |
| Cash, End of Year | \$ 841,518 | \$ 384,702 | \$ 456,146 | \$ 1,682,366 |
| <u>Supplemental Information:</u> | | | | |
| Cash Paid for Income Taxes | \$ - | \$ - | \$ - | \$ - |
| Cash Paid for Interest | \$ - | \$ - | \$ 74,828 | \$ - |

See Auditors' Report

The Accompanying Notes are an Integral Part of These Financial Statements

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

Organizational Data

Ranch at Roaring Fork Homeowners Association (the "Association") is a nonprofit corporation under the laws of Colorado. The Association's members consist of those persons or entities owning the units within the Ranch at Roaring Fork Homeowners Association development. Ranch at Roaring Fork Homeowners Association was incorporated July 2, 1973. The Association consists of 102 single family homes and 60 condominium units, for a total of 162 cost sharing units, and 2 vacant non-cost sharing lots. The Association is responsible for the maintenance and operation of the common areas of association, including a golf course, ponds, and other amenities, located in Carbondale, Colorado.

The Association operates and maintains facilities which include a golf course, sewer system, fishery, and equestrian facilities. Assessments are levied annually against each lot/unit in the development.

The Association's Board of Directors is comprised of 8 members elected by the membership. The Board of Directors, among other things, establishes assessments on members of the Association and establishes user fees for Association amenities.

Accounting Method

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

Fund Accounting

The Association's governing documents provide certain guidelines for managing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating Fund - Used to account for financial resources available for the general operations of the Association, as well as holding the Association's land, property, and equipment.

Replacement Fund - Used to account for financial resources designated for future major repairs and replacements of the amenities.

Loan Fund – Used to account for financial resources designated for the loan repayment and reconstruction project.

Revenue Recognition

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and major repairs and replacements. Effective June 1, 2020, the Association adopted Accounting Standards Codification Topic 606, Revenue from Contracts with Customers. This topic requires the recognition of revenue when performance obligations under the terms of the contracts with customers are satisfied. Revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Revenue Recognition

User fees and other revenues received from ancillary operations are recognized as the related performance obligations are satisfied. The performance obligations related to the ancillary activities are satisfied at either a point in time or over time and immediately after payment has been received.

All revenues are recognized at amounts that are expected to be collected.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, funds on deposit with financial institutions, and investments with original maturities of three months or less.

The Association maintains bank accounts at various financial institutions. Balances in these accounts may occasionally exceed the FDIC federally insured amount of \$250,000.

Investments

The Association invests in bonds and mutual funds which are classified as debt and equity securities. The Association's investments are recorded at fair value at year end. The securities are considered "available-for-sale" securities because they may be sold before maturity. Gains and losses on the sale of securities available-for-sale are determined using the specific identification method.

Equity securities are carried in the financial statements at fair value, and both realized and unrealized gains and losses are included in earnings. Cost and fair value of the available-for-sale investments as of December 31, 2022 are as follows:

| | Original <u>Cost</u> | Total Unrealized <u>Losses</u> | Fair <u>Value</u> |
|---|-------------------------|--------------------------------------|----------------------|
| Debt Securities | \$ 176,413 | \$ 4,724 | \$ 171,689 |
| Equity Securities | 81,664 | 8,850 | 72,814 |
| Total Investments - Available-for-Sale | \$ 258,077 | \$ 13,574 | \$ 244,503 |

All of the unrealized gains and losses recognized during the year ended December 31, 2022, are for equity securities still held at year end. Investment income includes \$212 of realized loss on sale of investments.

The Association's investments are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of fair value of an asset or a liability as of the measurement date. The Association measures the fair value of its assets based on the quoted prices that are available in an active market. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

The fair value of all debt and equity securities has been measured on a recurring basis using Level 1 inputs, which are based on unadjusted quoted market prices within active markets. There have been no changes in valuation approaches or techniques and related inputs.

The Association applies generally accepted accounting principles (GAAP) for the fair value measurements of financial instruments that are recognized or disclosed at fair value in the financial statements on a recurring basis.

As of December 31, 2022, the Association's only assets or liabilities that were measured at fair value were the available-for-sale investments listed below. These were comprised of debt and equity securities, which were valued at the closing price reported on the active market in which the individual securities are traded.

Fair value measurements for assets recorded at fair value at December 31, 2022 are as follows:

| Investments - Available-for-sale | <u>Level 1</u> | <u>Total Fair Value</u> |
|---|-----------------------|--------------------------------|
| Debt Securities | \$ 171,689 | \$ 171,689 |
| Equity Securities | 72,814 | \$ 72,814 |
| Total Investments - Available-for-sale | <u>\$ 244,503</u> | <u>\$ 244,503</u> |

Assessments Receivable, Allowance for Doubtful Accounts

Assessments receivable, as of December 31, 2022, totaled \$45,609. Assessments receivable at December 31, 2022, are stated at the amounts expected to be collected from outstanding assessments from owners. Assessments receivable at December 31, 2022 represent amounts due from members whose property is subject to lien and foreclosure. The Association's policy is to give homeowners a 45 day grace period after the assessment due date. The Association's collection policy includes, among other things, assessing a late charge and interest on payments not received within the allowable time periods. Restrictions are applied to the delinquent accounts.

An allowance for doubtful accounts is created when an account's collectability is uncertain. Accounts are written off when the Association is notified that it is a bad debt, such as after bankruptcy or foreclosure proceedings. The Association derives a significant portion of its revenue from dues assessments that are levied against each lot within the development.

Management believes all assessments receivable at December 31, 2022, to be fully collectible and therefore an allowance for doubtful accounts has not been established.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Property, Equipment and Depreciation

Property that is directly associated with the units owned by members of the Association is not recorded in the Association's financial statements. This includes common property without which the units could not be occupied such as exterior walls, roofs, public hallways, underlying land, sidewalks, driveways, parking spaces, and greenbelts. Significant improvements to common property that is not directly associated with the units and personal property such as vehicles and equipment that is used by the Association in operating, preserving, maintaining, repairing, and replacing common property and providing other services are recorded as property and equipment.

Property and equipment are depreciated using the straight-line method over the estimated useful lives ranging from 5 to 31.5 years.

A summary of the Association's property and equipment at December 31, 2022 is as follows:

| | <u>2022</u> |
|-------------------------------|----------------------------|
| Land | \$ 658,143 |
| Property, Plant & Equipment | 4,405,140 |
| Total Cost | 5,063,283 |
| Less Accumulated Depreciation | (3,185,612) |
| Total | <u>\$ 1,877,671</u> |

Depreciation expense for the year ended December 31, 2022, was \$164,945.

Amounts due between funds

Amounts due between the funds consist of lending/borrowing arrangements outstanding at the end of the year are reported as "due to/from other funds."

Prepaid Assessments

Prepaid Assessments represents assessment revenues and other fees received during 2022 that are applicable to the following year.

Deferred Revenues – Replacement Fund

Deferred revenues represent revenue collected in advance of the contract period or amount billed in excess of revenue recognized. These liabilities are reported on the Balance Sheet as deferred revenues.

The Association recognizes revenue from members as the related performance obligations are satisfied. Deferred revenue is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligation related to replacement of reserve assessments. The balances of deferred revenues as of the beginning and end of the current fiscal year are \$485,394 and \$579,910, respectively.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses and future major repairs and replacements. The Association's ability to collect assessments is affected by a variety of factors, including general economic conditions and each individual owner's financial capability.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES, (continued):

Member Assessments

Assessment revenue is recognized as the related performance obligations are satisfied at transaction amounts expected to be collected. The Association's performance obligation related to its operating assessments is satisfied over time on a daily pro-rata basis using the input method. The performance obligations to the reserve fund assessments are satisfied when these funds are expended for their designated purpose.

Investment Income

The Association records investment income and related income tax expenses in the respective fund holding the investments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates included in the preparation of these financial statements include estimates of replacement fund components relating to useful life, replacement cost, inflation rates, and tax rates. Actual results could differ from those estimates.

Lines of Business

The Association conducts only one line of business, which is providing management services to its members. This consists primarily of maintenance of the common areas and related administrative functions.

New Accounting Pronouncements

Credit Losses

On June 16, 2016, the FASB completed its Financial Instruments - Credit Losses project issuing Accounting Standards Update No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*. This new guidance requires organizations to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The new guidance affects organizations that hold financial assets and net investments in leases that are not accounted for at fair value through net income. The new guidance affects loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The effective date for the Update is for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years for all nonpublic business entities. The Association is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of this pronouncement.

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH:

The Association's governing documents require funds to be accumulated for the replacement of its common areas and for general operations. The Association believes that it has complied in all material respects with these requirements.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 2 - REPLACEMENT FUND AND RESTRICTED CASH, (continued):

Funds accumulated in the replacement fund are intended to provide for the cost of future replacement, repairs and maintenance when it is estimated that such expenditures are necessary.

However, actual expenditures may vary from the estimated amounts and the variations may be material. In addition, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, the Association has the right to increase regular assessments, to levy special assessments, to borrow the necessary funds, or to delay major repairs and replacements until the funds are available.

The Association annually reviews its reserve funding program as part of the budget process and funds its reserves on a monthly basis. Cash and investment balances accumulated for the designated capital reserves represent cash restricted for this purpose only. The assessments designated for major repairs and replacements during the year ended December 31, 2022 totaled \$131,384.

The Association commissioned a reserve study in 2020 to estimate these future funding requirements. The study used a pooled funding method that included an inflation factor of 2.9% to estimate future expenditures.

NOTE 3 - INCOME TAXES:

The Association is classified as a nonexempt membership organization for federal income tax purposes. The Association's net income from nonmember activities is subject to taxation.

In addition, net income from member activities may be subject to taxation. Net income from member activities may be offset by a prior year carryover of excess member deductions, or the Association may make an election to carry forward the net member income to the next tax period.

Net member losses may not be used to offset nonmember income and must be carried forward and applied only against future net member income.

Net taxable income is subject to tax rates based on a flat tax rate of 21%.

For Colorado state income tax purposes, the Association pays state taxes on the same unrelated business activities that are taxable for federal purposes, at a tax rate of 4.5%.

The Association's policy is to record interest expense or penalties related to income taxes in operating expenses. For the year ended December 31, 2022 no interest or penalties were paid or accrued.

Ranch at Roaring Fork Homeowners Association's federal and state tax returns are open for examination for the years 2020, 2021, and 2022.

The Association evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of December 31, 2022, the Association does not believe that it has taken any positions that would require the recording of any additional tax liability, nor does it believe there are any unrealized tax benefits that would either increase or decrease within the next year.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 4 – ANCILLARY REVENUES/CONTRACTS WITH CUSTOMERS:

The Association owns and operates a wastewater treatment plant and related facilities equipment and collection system. In a prior year, the Association contracted with the adjacent property to provide sewer service to the residences. The Association collects sewer fees from both the Aspen Equestrian Estates Home Owners Association, Inc. and the St. Finnbar Association. Wastewater revenues are recognized as performance obligations, which include providing wastewater treatment services, are met. Fees are billed quarterly in arrears and therefore obligations have been met at time of billing. Additional wastewater service charges are billed based aggregate costs of operation and are billed in arrears, therefore obligations have been met at time of billing.

The Association also earns revenues from contracts from customers related to RV storage rental, golf, fishing, leasing fees, and equestrian operations. These revenues are recognized as the performance obligations are satisfied. Timing of recognition varies depending on the type and period of obligation. Point in time sales are recognized at time of transaction. Fishing passes are recognized monthly as performance obligations are satisfied by the Association.

Revenue generated from the types of contracts listed above totaled \$439,136.

NOTE 5 – NOTE PAYABLE:

The Association obtained a construction loan in April of 2022, with a principal amount not to exceed \$3,000,000 for the renovation of the interior units and common areas. The loan, held by ANB Bank, is secured by all Association assets and future income and assessments generated. The note matures on April 26, 2037.

The agreement provides for interest only payments for the first eighteen months at a rate of 3.75% and then 162 monthly payments of \$23,709. The outstanding principal balance of the loan at the year ended December 31, 2022 was \$2,509,085. The Association paid \$74,828 in interest for the year ended December 31, 2022.

Principal and interest for the note payable matures in the following manner:

| | <u>Principal</u> | <u>Interest</u> |
|-------------------|---------------------|-------------------|
| 12/31/23 | \$ 28,400 | \$ 66,519 |
| 12/31/24 | 174,242 | 110,271 |
| 12/31/25 | 181,299 | 103,214 |
| 12/31/26 | 188,313 | 96,199 |
| 12/31/27 | 195,599 | 88,913 |
| Thereafter | 1,741,232 | 423,305 |
| Total | <u>\$ 2,509,085</u> | <u>\$ 888,421</u> |

NOTE 6 – LOAN ASSESSMENT:

During the year, the Association budgeted for a monthly assessment of \$365 per unit to be used to pay for the construction loan. The total amount billed during the year ended December 31, 2022, was \$500,974.

Ranch at Roaring Fork Homeowners Association

Notes to Financial Statements
For the Year Ended December 31, 2022

NOTE 7 – GOLF COURSE:

The Association owns a nine-hole golf course and pro shop. The operations of the golf course has been outsourced to an outside vendor. The agreement provides for an annual base management fee and costs associated with repairs and maintenance. The Association collects golf user fees and income from sales of merchandise at the golf pro shop. The income and expenses related to the golf course have been included in the statement of revenues, expenses and changes in fund balances.

NOTE 8 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK:

The Association maintains demand accounts at various banks. At December 31, 2022, the aggregate balance of these accounts exceeds the federally insured limits by \$824,748.

NOTE 9 – MANAGEMENT COMPANY:

The Association is managed by ICA Enterprises LLC. The Board of Directors maintains control of Association matters; however, it has delegated authority for day-to-day management to the management company.

NOTE 10 – PRIOR PERIOD RESTATEMENTS:

During the preparation of the financial statements for the year ended December 31, 2022, it was noted that the furniture and equipment balance was reported as a component of the replacement fund balance. The replacement fund balance is restricted to the activities of the Association's major repairs and replacement projects and therefore should not include the purchases of the Association's property and equipment. Accordingly, the corrections of the above had the following impact on fund balances as of December 31, 2021:

| | As Originally | | | As Restated | |
|------------------|----------------------|-------------------|----|--------------------|--|
| | Stated | Adjustment | | | |
| Operating Fund | \$ (1,342,707) | \$ 2,042,616 | \$ | 699,909 | |
| Replacement Fund | 4,138,913 | (2,042,616) | | 2,096,297 | |
| Total | \$ 2,796,206 | \$ - | \$ | 2,796,206 | |

NOTE 11 – LITIGATION:

A claim was filed by a bordering homeowner's association regarding an exclusive easement owned by the Association along the boundary between the two properties. The case is presently in discovery and the outcome cannot be determined as of the date of this report.

NOTE 12 – SUBSEQUENT EVENTS:

The financial statements were issued on and subsequent events were evaluated through December 5, 2023.

Ranch at Roaring Fork Homeowners Association

Supplemental Information on Replacement Fund Balances

For the Year Ended December 31, 2022

(unaudited)

The Board of Directors commissioned a study in 2020 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association has assessed the present condition of all common area components; estimated replacement costs relying upon published data, contractor's or engineer's estimates, and previously paid amounts; and estimated remaining lives, relying upon consultants or published data. Funding has been provided using a pooled calculation with provisions for inflation of 2.9%, interest earnings of 2.2%, and no provision for taxes.

The following table is based on the study and presents significant information about the components of common property.

| Component | Estimated Remaining Useful Lives | Estimated Current Replacement Cost |
|---|---|---|
| Condominiums - Exterior Building | 2-14 years | \$ 1,984,440 |
| Condominiums - Building Services | 1-30 years | 236,800 |
| Condominiums - Property Site | 0-30 years | 358,600 |
| Common - Exterior Building | 2-27 years | 177,620 |
| Common - Interior Building | 1-17 years | 101,500 |
| Common - Building Services | 3-7 years | 25,500 |
| Common - General Property Site | 1-28 years | 2,483,768 |
| Common - Golf Course Property Site | 2-17 years | 250,700 |
| Common - Waterways | 1-17 years | 1,804,300 |
| Common - Vehicle and Equipment | 0-11 years | 1,133,000 |
| Water Treatment - Exterior Building | 1-10 years | 19,000 |
| Water Treatment - Interior Building | 5 years | 15,000 |
| Water Treatment - Building Services | 3-5 years | 31,500 |
| Water Treatment - Property Site | 0-10 years | 293,610 |
| Totals | | <u><u>\$ 8,915,338</u></u> |
| Replacement Fund Balance at December 31, 2022 | | <u><u>\$ 35,999</u></u> |