



Craig Ranch Community Association

FINANCIAL STATEMENTS (AND SUPPLEMENTARY INFORMATION)

December 31, 2021



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INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Members of
Craig Ranch Community Association
McKinney, Texas

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CRlcpa.com

Opinion

We have audited the accompanying financial statements of Craig Ranch Community Association, which comprise the Balance Sheet as of December 31, 2021, and the related Statements of Revenue, Expenses and Changes in Fund Balance and Cash Flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craig Ranch Community Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance 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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Craig Ranch Community 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; this includes 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 condition or events, considered in the aggregate, that raise substantial doubt about Craig Ranch Community 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' Responsibilities for the Audit of 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 auditors' 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 the purpose of expressing an opinion on the effectiveness of Craig Ranch Community 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 Craig Ranch Community 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.

Report on Summarized Comparative Information

We have previously audited Craig Ranch Community Association's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 27, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information contained in the Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements and Schedule of Operating Fund Revenue and Expenses – Budget and Actual is presented for purposes of additional analysis, and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements 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. 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.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

Miramar Beach, Florida
December 29, 2022

Craig Ranch Community Association
Balance Sheet

<i>December 31,</i>	2021				2020
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Assets					
Cash	\$ 2,312,633	\$ 797,248	\$ 798,357	\$ 3,908,238	\$ 5,788,416
Investments	679,391	2,556,445	1,139,193	4,375,029	-
Accounts receivable, net	63,863	-	-	63,863	164,644
Insurance proceeds receivable	-	-	44,053	44,053	214,980
Other receivables	4,074	-	-	4,074	3,639
Prepaid expenses	482,492	8,480	-	490,972	358,058
Property and equipment, net	20,119	-	-	20,119	49,765
Other assets	43,672	-	-	43,672	63,672
Interfund balance	(316,646)	1,519	315,127	-	-
Total assets	\$ 3,289,598	\$ 3,363,692	\$ 2,296,730	\$ 8,950,020	\$ 6,643,174
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ 193,345	\$ 4,707	\$ -	\$ 198,052	\$ 150,402
Accrued expenses	37,925	34,431	-	72,356	28,653
Accrued hail damage repairs	-	-	21,924	21,924	228,143
Prepaid assessments	1,919,060	-	-	1,919,060	1,535,270
Insurance finance agreement	430,549	-	-	430,549	148,740
Note payable	11,826	-	-	11,826	32,098
Performance obligation	-	-	2,221,582	2,221,582	2,116,587
Total liabilities	2,592,705	39,138	2,243,506	4,875,349	4,239,893
Fund balance - designated	-	3,324,554	53,224	3,377,778	1,736,168
Fund balance - undesignated	696,893	-	-	696,893	667,113
Total fund balance	696,893	3,324,554	53,224	4,074,671	2,403,281
Total liabilities and fund balance	\$ 3,289,598	\$ 3,363,692	\$ 2,296,730	\$ 8,950,020	\$ 6,643,174

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association
Statement of Revenue, Expenses and Changes in Fund Balance

<i>For the year ended December 31,</i>		2021			2020
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)
Revenue					
Regular assessments	\$ 4,822,492	\$ -	\$ 547,992	\$ 5,370,484	\$ 4,682,730
Insurance assessments	383,339	-	-	383,339	180,378
Parcel developer deficit funding	-	-	-	-	138,355
Interest and dividend income	18,274	13,111	9,184	40,569	28,215
Gain on sale of investments	357	-	1,232	1,589	-
Other income	224,575	77,035	-	301,610	213,364
Insurance proceeds	-	-	6,048	6,048	-
Bad debt recovery	5,480	-	-	5,480	-
Total revenue	5,454,517	90,146	564,456	6,109,119	5,243,042
Expenses					
Administrative	1,303,302	-	-	1,303,302	1,387,606
Bad debt provision	-	-	-	-	76,204
Community enhancements	-	595,790	-	595,790	1,123,416
Depreciation	29,646	-	-	29,646	29,648
Insurance	1,184,207	-	-	1,184,207	703,528
Maintenance and repairs	2,176,133	-	642,095	2,818,228	3,002,681
Unrealized loss - investments	4,600	13,537	6,294	24,431	-
Utilities	769,580	-	-	769,580	869,735
Total expenses	5,467,468	609,327	648,389	6,725,184	7,192,818
Excess (Deficit) of Revenue over Expenses	(12,951)	(519,181)	(83,933)	(616,065)	(1,949,776)
Beginning Fund Balance	667,113	1,657,791	78,377	2,403,281	3,436,288
Capital Contributions	42,731	-	58,780	101,511	111,038
Community Enhancement Fees	-	2,185,944	-	2,185,944	805,731
Ending Fund Balance	\$ 696,893	\$ 3,324,554	\$ 53,224	\$ 4,074,671	\$ 2,403,281

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association Statement of Cash Flows

<i>For the year ended December 31,</i>	2021				2020	
	Operating Fund	Enhancement Fund	Replacement Fund	Total	Total (For Comparative Purposes)	
Operating Activities						
Excess (deficit) of revenue over expenses	\$ (12,951)	\$ (519,181)	\$ (83,933)	\$ (616,065)	\$	(1,949,776)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided (used) by operating activities:						
Bad debt provision (recovery)	(5,480)	-	-	(5,480)		76,204
Depreciation	29,646	-	-	29,646		29,648
Changes in operating assets and liabilities:						
Accounts receivable	105,826	-	-	105,826		65,947
Insurance proceeds receivable	-	-	170,927	170,927		826,610
Due from parcel developer	-	-	-	-		173,421
Other receivables	-	20,000	-	20,000		-
Prepaid expenses	(129,539)	(3,375)	-	(132,914)		(164,155)
Other assets	-	-	-	-		(23,882)
Accounts payable	43,028	4,622	-	47,650		(534,360)
Accrued expenses	9,272	34,431	-	43,703		(487,158)
Retainage payable	-	-	-	-		(99,871)
Accrued hail damage repairs	-	-	(206,219)	(206,219)		(1,094,102)
Prepaid assessments	383,790	-	-	383,790		970,077
Insurance finance agreements	281,809	-	-	281,809		94,103
Performance obligation	-	-	104,995	104,995		164,913
Interfund balance	(238,197)	(8,623)	246,820	-		-
Net cash provided (used) by operating activities	467,204	(472,126)	232,590	227,668		(1,952,381)
Investing Activities						
Purchase of certificates of deposit	-	-	-	-		643,606
Purchase of investments	(679,391)	(2,556,445)	(1,139,193)	(4,375,029)		-
Net cash provided (used) by investing activities	(679,391)	(2,556,445)	(1,139,193)	(4,375,029)		643,606
Financing Activities						
Payments on short-term borrowings (payments), net	(20,272)	-	-	(20,272)		32,098
Capital contributions and community enhancement fees	42,731	2,185,944	58,780	2,287,455		916,769
Net cash provided (used) by financing activities	22,459	2,185,944	58,780	2,267,183		948,867
Net Increase (Decrease) in Cash	(189,728)	(842,627)	(847,823)	(1,880,178)		(359,908)
Cash at Beginning of Year	2,502,361	1,639,875	1,646,180	5,788,416		6,148,324
Cash at End of Year	\$ 2,312,633	\$ 797,248	\$ 798,357	\$ 3,908,238	\$	5,788,416

The accompanying notes are an integral part of these financial statements.

Craig Ranch Community Association

Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Craig Ranch Community Association (the "Association") (a property owners association) was formed on March 10, 2004, as a Texas not-for-profit corporation to provide for overall development expansion, administration, maintenance, preservation and architectural control of the Community of Craig Ranch and to maintain and operate property and facilities for the common benefit of the owners and residents. The community consists of approximately 6,037 equivalent units of ownership, including 4,125 residential units and 1,912 commercial units. This development consists of approximately 2,200 acres in McKinney, Texas.

The Association is organized into 16 residential single-family developments in including four townhome developments and two sub-associations. Ten of the single-family developments are organized into service areas. The Association was organized for the purpose of maintaining and protecting the individual elements owned by the owners in common, such as roads, gated entry ways, landscaping, ponds, water features, playground, pool, clubhouse, restroom, track, stormwater management system and other property as deeded from the developer. Disposition of common area property requires consent of the members in accordance with the governing documents.

All policy decisions including the annual budget and owners' assessments are formulated by the Board of Directors. Decisions are referred to the general Association membership before action is taken, when so required by the governing documents of the Association.

Management and accounting services are provided by Community Management Associates, Inc.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs). The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Association's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Estimates

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Craig Ranch Community Association

Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Funds

The Association is a not-for-profit organization that employs the fund method of accounting in order to properly account for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership. The financial statements segregate the accounting for such funds as Operating, Enhancement or Replacement Funds. At the end of the year, excess funds are retained by the fund generating such excess during the year.

The Operating Fund is used to account for financial resources available for the general operations of the Association. Disbursements from the Operating Fund are generally at the discretion of the Board of Directors.

The Enhancement Fund consists of accumulated enhancement fee contributions. These community enhancement fees are intended to be used for wildlife preservation and maintenance, cultural programs, recreational leagues, festivals, holiday celebrations, educational programs and community outreach programs. See Note 12 for further details.

The Replacement Fund is used to account for assessments made for major repair and replacement of common property, and related expenses. Disbursements from the Replacement Fund may only be utilized in accordance with Texas Property Code and the purposes established by the Board of Directors and the Association membership. Interest income earned in the Replacement Fund is maintained in the pooled reserves balance within each service area.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all highly-liquid debt instruments with an original maturity of 90 days or less.

Accounts Receivable from Owners and Allowance for Doubtful Accounts

Accounts receivable from owners are reported at the outstanding balance due from owners, net of any allowance for doubtful accounts. The Association provides for doubtful accounts based on experience and analysis of individual accounts. When specific accounts are determined to be uncollectible, they are written off by charging the allowance and crediting receivables. The Association's allowance for doubtful accounts totaled \$216,608 at December 31, 2021.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items on the Balance Sheet. These items will be expensed over the applicable usage period.

Craig Ranch Community Association

Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capitalization and Depreciation Policy

Real property acquired by the Association is capitalized when it (a) is used to generate significant cash flows from members on the basis of usage or from nonmembers or (b) can be disposed of for cash with the Association retaining proceeds. Real property acquired by the Association that does not meet these guidelines is not capitalized, and accordingly, replacements, major repairs, and improvements to this property are not capitalized; instead, they are reported as expenses in the fund making the expenditure. Real property that has not been capitalized is identified in Note 1.

Property and equipment acquired by the Association is capitalized at cost and depreciated over its estimated useful lives, which range from 5 to 10 years, using the straight-line method. These assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. If such events or circumstances indicate the cost of any long-lived asset may be impaired, an evaluation of recoverability would be performed.

Investments

The Association has elected the fair value option for valuing its investments which enables them to report unrealized gains and losses in earnings. Management has elected this option for the purpose of simplicity, ease of reporting, and ultimately to make the financial statements more understandable to the reader.

Contract Assets and Liabilities

Contract assets represent revenue recognized in excess of amounts billed. No such amounts are reported on the Balance Sheet as of December 31, 2021. Contract liabilities represent revenue collected in advance of the contract period or amounts billed in excess of revenue recognized. These liabilities are reported on the Balance Sheet as prepaid assessments and performance obligation liabilities.

Revenue Recognition

The Association recognizes 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. For purposes of this Association, the definition of customers includes the Association's members.

Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, December 29, 2022. See Note 14 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Craig Ranch Community Association Notes to Financial Statements

NOTE 3: OWNERS' ASSESSMENTS

Master association assessments are levied against all lot owners, on a pro-rata basis, to fund the Association's expenses which are common to or benefit the Association's membership at large, such as ownership and operation of the common areas and any recreational amenities, maintenance, insurance, administrative costs, and related items. Base assessments are determined on the basis of a budget prepared annually by the Board of Directors covering the estimated costs of operating the Association during the coming year. The annual rate for 2021 for all owners was \$395.

Service areas within the Association are charged additional assessment fees for expenses that directly impact their service areas as follows:

Service Area	Assessment Rates	Billing Frequency
Chateaus of the Settlement at Craig Ranch	\$317	monthly
Estates at Craig Ranch	\$140	monthly
Villas at Craig Ranch Estates	\$176	monthly
The Grove at Craig Ranch	\$276	semi-annually
Hemingway at Craig Ranch	\$249	monthly
Craig Ranch North	\$310	annually
Settlement Townhomes at Craig Ranch	\$329	monthly
Southern Hills at Craig Ranch	\$304	semi-annually
Spicewood at Craig Ranch	\$495	semi-annually
The Trails at Craig Ranch	\$339	semi-annually
Wessex Place	\$200	monthly
Watters Branch at Craig Ranch	\$417	semi-annually
Liberty Hill	\$273	semi-annually

Levied regular assessments for the year ended December 31, 2021 totaled \$5,471,671, of which \$649,179 was allocated to the Replacement Fund. The following table reconciles budgeted regular assessments to the amounts recognized as assessment revenue in the Statement of Revenue, Expenses and Changes in Fund Balance:

<i>For the year ended December 31,</i>	2021		
	Operating Fund	Replacement Fund	Total
Budgeted regular assessments	\$ 4,822,492	\$ 649,179	\$ 5,471,671
Less additions to performance obligation	-	(649,179)	(649,179)
Add releases from performance obligation	-	547,992	547,992
Total assessments	\$ 4,822,492	\$ 547,992	\$ 5,370,484

Craig Ranch Community Association

Notes to Financial Statements

NOTE 3: OWNERS' ASSESSMENTS (Continued)

In April 2021, the Association levied insurance renewal assessments to cover the increased cost of new insurance premiums for the 2021-2022 policy periods for the Hemingway and Settlement Townhomes service areas. The Settlement Townhomes assessment is \$943 per owner, totaling \$18,854. The Hemingway assessment is \$1,030 per owner, totaling \$364,485. The related insurance premiums are due in 2021; accordingly, the revenue from these insurance renewal assessments were recognized in 2021.

NOTE 4: REVENUE RECOGNITION

As disclosed in Note 2 to the financial statements, the Association's customers consist of its members, which are unit owners within the development. The contracts between these customers and the Association primarily relate to maintaining, managing and providing access to the property and amenities owned in common by the unit owners.

Performance Obligations

The Association's revenue is derived primarily from assessments to its members. The Association generally recognizes its revenue from contracts with customers over time with the exception of reserve, insurance, parcel and special assessments, which are being recognized at a point in time. As of December 31, 2021, the Association has reported a performance obligation liability totaling \$2,221,582, relating to the future major repair and/or replacement of specific components of common property. The assessments related to this performance obligation are generally reported in the Replacement Fund and will be recognized as revenue at the point in time when the funds are expended for their designated purpose.

Significant Judgments

For those revenue items recognized over time, the Association generally utilizes the input method of measurement, where revenue is recognized based on the Association's efforts towards the satisfaction of a performance obligation. For Operating Fund amounts, revenue is recognized as time elapses and the Association performs routine maintenance, protection and management of the common area property. For Replacement Fund and special/insurance assessment amounts, the Association recognizes revenue at the point in time when the related expenses are incurred.

Topic 606 does not apply to interest income, which is recognized in the period it is earned.

Disaggregated Revenue

The Association derives its revenue from various activities and sources having different qualitative factors that may affect the amount, timing, or uncertainty of revenues and cash flows.

Craig Ranch Community Association
Notes to Financial Statements

NOTE 4: REVENUE RECOGNITION (Continued)

The following chart contains disaggregated revenue information that reflects these qualitative factors:

<i>For the year ended December 31,</i>	2021
Recognized over time	
Operating fund assessments	\$ 4,822,492
Recognized at a point in time	
Replacement fund assessments	547,992
Insurance assessments	383,339
Gain on sale of investments	1,589
Bad debt recovery	5,480
Other income	301,610
Not subject to ASC Topic 606	
Interest income	40,569
Insurance proceeds	6,048
Total revenue	\$ 6,109,119

The following table presents information about accounts receivable, contract assets, and contract liabilities:

<i>For the year ended December 31,</i>	2021
Accounts receivable, net - beginning balance	\$ 164,644
Accounts receivable, net - ending balance	63,863
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	1,535,270
Prepaid assessments - ending balance	1,919,060
Performance obligation liabilities - beginning balance	2,116,587
Performance obligation liabilities - ending balance	2,221,582

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association to accumulate funds for future major repairs and replacements, unless otherwise decided by the voting membership. The Association has adopted a program to accumulate funds for estimated future major repairs and replacements through regular assessments.

Craig Ranch Community Association

Notes to Financial Statements

NOTE 5: FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

The Board of Directors annually reviews the major components of common property. As a part of this review, the Board re-evaluates the estimated remaining useful lives and the estimated replacement costs of each of the components of the Replacement Fund. Where applicable, licensed contractors and architects are consulted regarding useful lives and replacement costs. The Board of Directors last performed a review of the estimated replacement costs, remaining lives, and funding requirements for the reserve components in 2021, based on an independent professional study conducted in 2017. The Association obtained independent professional studies in 2020 for the 2021 budget, which was also utilized in preparing the Supplementary Information on Future Major Repairs and Replacements (Unaudited) on page 22.

The Association is funding for future major repairs and replacements over the estimated useful lives of the components based on their study's estimates of replacement costs and considering amounts previously accumulated in the Replacement Fund. Accordingly, the total funding amount of \$649,179, based on a full funding plan, was included in the 2021 budgets for the master and all service areas. Also, the Association collected \$58,780 of initial reserve assessments across all service areas, which are collected at the closing of new homes and resale homes within the Association and used to provide further resources to the Replacement Fund.

Actual expenditures, however, may vary from the estimated amounts and the variations may be significant. Therefore, 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, or it may delay major repairs and replacements until funds are available.

NOTE 6: INCOME TAXES

The Association is a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code (i.e. Association files non-profit tax Form 990). Therefore, there is no provision or liability for federal income taxes included in the accompanying financial statements. Under this section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, and maintenance of Association property. Net nonexempt function income, which includes unrelated business income and revenues from nonmembers, is taxed at regular federal corporate tax rates. For the year ended December 31, 2021, the Association had no income tax expense.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Association and recognize a tax liability if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Association's

Craig Ranch Community Association Notes to Financial Statements

NOTE 6: INCOME TAXES (Continued)

policy is to record interest expense or penalties related to income tax in (operating) expense. For the year ended December 31, 2021, no interest or penalties were paid or accrued. The Association is subject to routine audits by taxing jurisdictions; however, there are no audits for any tax periods in progress. The Association's management believes it is no longer subject to income tax examinations for years prior to 2018.

NOTE 7: CREDIT RISK

The Association assesses regular and special assessments to its members. It is the Association's policy to turn over significantly past due accounts for collection and to file liens against the individual owner units. Should the collection of any such liens be enforced by sale of the unit, the collectability of the receivable is dependent on the quick sale market value of the unit, and the amount of any other liens that have priority. Market value may be influenced by the real estate market in McKinney, Texas.

NOTE 8: INVESTMENTS AND FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs, other than quoted prices, that are:
 - observable; or
 - can be corroborated by observable market data.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Craig Ranch Community Association
Notes to Financial Statements

NOTE 8: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The Association's investments at December 31, 2021 totaling \$4,375,029 were invested as follows:

		Fair Value Measurements Using			Total
		Quoted Prices in Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
	Amortized Costs				
Investments					
Mutual funds - fixed income	\$ -	\$ 2,196,086	\$ -	\$ -	\$2,196,086
Mutual funds - equities	-	1,644,485	-	-	1,644,485
Exchange traded funds - fixed income	-	49,294	-	-	49,294
Exchange traded funds - equities	-	357,759	-	-	357,759
Money market	127,405	-	-	-	127,405
	<u>\$ 127,405</u>	<u>\$ 4,247,624</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$4,375,029</u>

Unrealized losses related to these investments totaling \$4,600, \$13,537 and \$6,294 in the operating, enhancement and replacement funds, respectively, have been reported on the accompanying statement of revenue, expenses and changes in fund balance.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2021 and 2020.

Mutual funds: Valued at the daily closing price as reported on the active market in which the mutual fund is traded. Mutual funds held by the Association are closed-end mutual funds that are registered with the SEC. These funds may trade at a premium or discount to the daily NAV price. The mutual funds held by the Association are deemed to be actively traded.

Exchange traded funds: Valued at the closing price reported on the active market in which the exchange traded funds are traded. Exchange traded funds held by the Association are registered with the SEC. The exchange traded funds held by the Association are deemed to be actively traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in different fair value measurements at the reporting date.

Craig Ranch Community Association Notes to Financial Statements

NOTE 8: INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Changes in Fair Value Levels

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluated the significance of transfer between levels based upon the nature of the financial instrument and size of the transfer relative to total assets. For the year ended December 31, 2021, there were no significant transfers in or out of Levels 1, 2 or 3.

NOTE 9: PROPERTY AND EQUIPMENT

The following schedule summarizes the Association's property and equipment:

<i>December 31,</i>	2021
Office leasehold improvements	\$ 296,460
Furniture and equipment	5,266
Total property and equipment	301,726
Less accumulated depreciation	(281,607)
Property and equipment, net	\$ 20,119

Depreciation expense for the year ended December 31, 2021 was \$29,646.

NOTE 10: INTERFUND BALANCE

As of December 31, 2021, the Operating Fund owed \$315,127 to the Replacement Fund, primarily due to insurance proceeds, special assessments and insurance assessments deposited in the Operating Fund and recognized in the Replacement Fund in 2019. This interfund balance is reported on the accompanying Balance Sheet. The Association intends to repay this interfund loan from the operating fund to replacement fund in 2022.

NOTE 11: INSURANCE FINANCE AGREEMENTS

The Association has obtained several short-term notes payable with financial institutions to finance its annual insurance policy premiums. The notes were payable in monthly installments ranging from \$5,708 to \$64,175, bore interest at rates ranging from of 4.5% to 5.2%, and matured between March and October 2022. The balance of the notes at December 31, 2021 totaled \$430,549.

Craig Ranch Community Association Notes to Financial Statements

NOTE 12: CAPITAL CONTRIBUTIONS

Every transfer of a home by an owner other than the developer is liable to the Association for a sales fee (i.e. capital contribution). The fees vary depending on the particular service area and range from two months to six months of assessment fees for the Operating Fund and the Replacement Fund. The capital contributions related to sales within the Association's community is intended to provide the Association with additional working capital. During the year ended December 31, 2021, the Association assessed capital contributions of \$42,731 and \$58,780 in the Operating and Replacement Funds, respectively.

NOTE 13: ENHANCEMENT FEES

The Association's Community Charter (the "Charter") requires that all real estate sales within the development pay an amount for community enhancement fees; excluding sales from or to the Founder ("Developer") and Developer sales to a parcel developer or builder that holds title solely for purposes of development and resale. This fee is calculated as 0.25% of the first \$300,000 of the total sales price, plus 0.5% of the sales price in excess of \$300,000. The fees are to provide funding for activities and such other purposes as the Board of Directors deems beneficial to the general good and welfare of the Community (e.g. enhancements to recreational areas, etc.). For the year ended December 31, 2021, the Association assessed enhancement fees of \$2,185,944 and incurred expenses of \$595,790, which is reported in the Enhancement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance. Accumulated enhancement fees are included in Enhancement Fund balance on the accompanying Balance Sheet and will be used for future enhancement fund activities. See note 2 for further details of these activities.

NOTE 14: SUBSEQUENT EVENTS

In April 2022, the Association levied a \$480 per lot special assessment for the Hemingway at Craig Ranch owners to repair the Hemingway clubhouse.

In June 2022, the Association received approximately \$13,000 in settlement funds from the insurance carrier in receivership for damages sustained in 2021 at Settlement Townhomes at Craig Ranch. The Association anticipates distributing the \$13,000 insurance settlement in 2023.

In November 2022, the Association received settlements from the insurance carrier for approximately \$446,000 and \$185,000. The Association distributed \$185,000 in December 2022 to the Hemingway at Craig Ranch homeowners and anticipates distributing a portion of the \$446,000 insurance settlement in 2023.

In 2021, the Association received approximately \$22,000 in settlement funds from the insurance carrier for damages sustained in 2021 at Chateaus of the Settlement at Craig Ranch. The Association anticipates distributing a portion of the \$22,000 insurance settlement in 2023.

Craig Ranch Community Association

Notes to Financial Statements

NOTE 14: SUBSEQUENT EVENTS (Continued)

In the third quarter of 2022, the Association executed a new lease for 2,931 square feet of office space. The Association anticipates spending approximately \$107,000 for buildout costs in addition to the property owner's allowance of \$73,000. The lease payments commence when the space is substantially complete which is expected to be March 2023. The lease term is 88 months following the commencement date and the rent escalates from \$27.75 per square foot per year to \$20.75 per square foot in the last year of the term.

Supplementary Information

Craig Ranch Community Association
Schedule of Changes in Accumulated Funds for Future Major Repairs and
Replacements

For the year ended December 31,

2021

Component	Beginning Balance	Additions	Subtractions	Ending Balance
Master				
Pooled items:				
Community elements			\$ (2,822)	
Crossroads Park			-	
Dog park			(4,050)	
Signage			-	
Dr. Kenneth Cooper Park			(68,938)	
Miscellaneous			(8,446)	
Total pooled	\$ 248,476	\$ 148,890	(84,256)	\$ 313,110
Chateaus of the Settlement at Craig Ranch				
Pooled items:				
Exterior building elements			(63,647)	
Total pooled	72,659	12,886	(63,647)	21,898
Estates at Craig Ranch				
Nonpooled items:				
Streets	131,662	33,408	-	165,070
Pooled items:				
Access control and perimeter elements			(10,560)	
Pond elements			(35,223)	
Miscellaneous			(1,216)	
Total pooled	245,492	66,521	(46,999)	265,014
The Grove at Craig Ranch				
Pooled items:				
Shade structure			(21,210)	
Total pooled	45,458	12,802	(21,210)	37,050
Hemingway at Craig Ranch				
Pooled items:				
Exterior building elements			(131,754)	
Pool elements			(2,375)	
Property site elements			(143,380)	
Miscellaneous			(4,652)	
Total pooled	914,528	290,104	(282,161)	922,471

(continued)

Craig Ranch Community Association
Schedule of Changes in Accumulated Funds for Future Major Repairs and
Replacements (Continued)

For the year ended December 31,

2021

Component	Beginning Balance	Additions	Subtractions	Ending Balance
Craig Ranch North				
Pooled items:				
Pool and pool house elements			\$ (3,575)	
Property site elements			(91,780)	
Miscellaneous			(1,861)	
Total pooled	\$ 251,614	\$ 109,006	(97,216)	\$ 263,404
Settlement Townhomes at Craig Ranch				
Pooled items:				
Exterior building elements			(12,689)	
Total pooled	80,994	9,547	(12,689)	77,852
Southern Hills at Craig Ranch				
Pooled items:				
Fences and trellis			(11,509)	
Total pooled	1,526	11,128	(11,509)	1,145
Spicewood at Craig Ranch				
Pooled items:				
Concrete, sidewalks, partial			(3,505)	
Landscape, tree maintenance			(8,162)	
Total pooled	36,175	7,238	(11,667)	31,746
The Trails at Craig Ranch				
Pooled items:				
Landscaping - tree maintenance			(1,175)	
Total pooled	35,864	11,348	(1,175)	46,037
Watters Branch at Craig Ranch				
Pooled items:				
Property site elements			(13,998)	
Pool and pool house elements			(1,280)	
Miscellaneous			(582)	
Total pooled	130,516	15,353	(15,860)	130,009
Total	\$ 2,194,964	\$ 728,231	\$ (648,389)	\$ 2,274,806

Craig Ranch Community Association
Schedule of Changes in Accumulated Funds for Future Major Repairs and
Replacements (Continued)

<i>December 31,</i>	2021
Performance obligation liability	\$ 2,221,582
Replacement fund balance	53,224
Total	\$ 2,274,806

Craig Ranch Community Association
Schedule of Operating Fund Revenue and Expenses – Budget and Actual

For the year ended December 31,

2021

	Actual	Budget (Unaudited)	Variance - Favorable (Unfavorable) (Unaudited)
Revenue			
Regular assessments	\$ 4,822,492	\$ 4,754,189	\$ 68,303
Insurance assessments	383,339	-	383,339
Interest income	18,274	4,881	13,393
Gain on sale of investments	357	-	357
Other income	224,575	196,380	28,195
Bad debt recovery	5,480	-	5,480
Total revenue	5,454,517	4,955,450	499,067
Expenses			
Administrative	1,303,302	1,232,649	(70,653)
Bad debt provision	-	31,040	31,040
Depreciation	29,646	-	(29,646)
Insurance	1,184,207	845,093	(339,114)
Maintenance and repairs	2,176,133	2,053,236	(122,897)
Unrealized loss - investments	4,600	-	(4,600)
Utilities	769,580	813,501	43,921
Total expenses	5,467,468	4,975,519	(491,949)
Excess (deficit) of revenue over expenses	(12,951)	(20,069)	7,118
Beginning fund balance	667,113	-	667,113
Capital contributions	42,731	20,390	22,341
Ending fund balance (deficit)	\$ 696,893	\$ 321	\$ 696,572

Craig Ranch Community Association Supplementary Information on Future Major Repairs and Replacements (Unaudited)

The following table is based on professional studies prepared in 2020 for the master and service areas:

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/21
Master			
Pooled items:			
Clubhouse elements (The Compass)	7 - 29+	\$ 452,500	
Community elements	0 - 29+	1,283,000	
Crescent Park	6 - 29+	193,300	
Crossroads Park	2 - 29+	955,380	
Dog park	0 - 29+	228,070	
Dr. Kenneth Cooper Park	2 - 11	363,600	
Heron Bay Park	6 - 17	15,800	
Millie Cooper Park	1 - 29+	168,300	
Total pooled items		3,659,950	\$ 313,110
Chateaus of the Settlement at Craig Ranch			
Pooled items:			
Exterior building elements	5 - 22	1,352,872	
Property site elements	0 - 29+	347,600	
Total pooled items		1,700,472	21,898
Estates at Craig Ranch			
Nonpooled items:			
Streets	0 - 29+	4,118,000	165,070
Pooled items:			
Access control and perimeter elements	0 - 26	639,220	
Pond elements	0 - 29+	827,160	
Total pooled items		1,466,380	265,014
The Grove at Craig Ranch			
Pooled items:			
Concrete sidewalks	1 - 29+	169,400	
Fences	2 - 28	28,560	
Landscaping - tree maintenance	0	3,500	
Mailbox stations	20	40,000	
Playground equipment	15	37,500	
Shade structure	5 - 15	15,000	
Signage	15	7,000	
Site furniture	13	15,000	
Total pooled items		315,960	37,050

(continued)

Craig Ranch Community Association
Supplementary Information on Future Major Repairs and Replacements
(Continued) (Unaudited)

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/21
Hemingway at Craig Ranch			
Pooled items:			
Clubhouse elements	0 - 18	219,750	
Exterior building elements	0 - 28	3,775,530	
Pool elements	2 - 14	188,450	
Property site elements	0 - 29+	1,021,640	
Total pooled items		5,205,370	922,471
Craig Ranch North			
Pooled items:			
Pool and pool house elements	0 - 23	511,220	
Property site elements	0 - 29+	1,306,670	
Total pooled items		1,817,890	\$ 263,404
Settlement Townhomes at Craig Ranch			
Pooled items:			
Exterior building elements	4 - 20	72,059	
Property site elements	7 - 29+	76,250	
Total pooled items		148,309	77,852
Southern Hills at Craig Ranch			
Pooled items:			
Concrete sidewalks	2 - 29+	393,800	
Fences and trellis	1 - 28	59,840	
Landscaping	0	4,000	
Mailbox stations	19	54,000	
Pergolas	19 - 24	48,000	
Playground equipment	12	70,000	
Signage	14	5,000	
Site furniture	14	11,500	
Total pooled items		646,140	1,145

(continued)

Craig Ranch Community Association
Supplementary Information on Future Major Repairs and Replacements
(Continued) (Unaudited)

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/21
Spicewood at Craig Ranch			
Pooled items:			
Concrete sidewalks	1 - 29+	78,100	
Landscaping - tree maintenance	0	2,500	
Mailbox stations	19	38,000	
Retaining wall, masonry, inspection and capital repairs	14	2,000	
Signage	14	6,000	
String lights	17	4,000	
Total pooled items		130,600	31,746
The Trails at Craig Ranch			
Pooled items:			
Concrete sidewalks	1 - 29+	211,200	
Gazebo	21	33,500	
Landscaping - tree maintenance	0	2,000	
Mailbox stations	18	16,000	
Pavers	13	14,420	
Site furniture	11	8,400	
Total pooled items		285,520	46,037
Watters Branch at Craig Ranch			
Pooled items:			
Property site elements	0 - 29+	165,620	
Pool and pool house elements	2 - 28	144,285	
Total pooled items		309,905	130,009
Total		\$ 19,804,496	\$ 2,274,806