

**Craig Ranch Community
Association, Inc.**

**FINANCIAL STATEMENTS (AND
SUPPLEMENTARY
INFORMATION)**

December 31, 2019



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INGRAM

CPAs and Advisors

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Craig Ranch Community Association, Inc.
Table of Contents
December 31, 2019

REPORT

Independent Auditors' Report	1
------------------------------------	---

FINANCIAL STATEMENTS

Balance Sheet	3
---------------------	---

Statement of Revenue, Expenses and Changes in Fund Balance	4
--	---

Statement of Cash Flows	5
-------------------------------	---

Notes to Financial Statements	6
-------------------------------------	---

SUPPLEMENTARY INFORMATION

Schedule of Changes in Accumulated Funds for Future Major Repairs and Replacements	20
---	----

Schedule of Operating Fund Revenue and Expenses – Budget and Actual	22
---	----

Supplementary Information on Future Major Repairs and Replacements (Unaudited)	23
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INDEPENDENT AUDITORS' REPORT

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

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Report on the Financial Statements

We have audited the accompanying financial statements of Craig Ranch Community Association, Inc., which comprise the Balance Sheet as of December 31, 2019, 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.

Management's Responsibility 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Craig Ranch Community Association, Inc. as of December 31, 2019, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Craig Ranch Community Association, Inc. implemented new accounting guidance under FASB ASC 606, Revenue from Contracts with Customers. The Craig Ranch Community Association, Inc.'s implementation of the new accounting standard significantly changes the recognition of replacement fund assessments, and as a result, the Association has restated its beginning fund balance. Our opinion is not modified with respect to the implementation of the new guidance.

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, except for that portion marked "unaudited," 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. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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
November 12, 2020

Craig Ranch Community Association, Inc.
Balance Sheet

December 31,

2019

	Operating Fund	Enhancement Fund	Replacement Fund	Total
Assets				
Cash	\$ 2,142,422	\$ 2,350,518	\$ 1,655,384	\$ 6,148,324
Certificates of deposit	-	-	643,606	643,606
Accounts receivable, net	302,247	-	-	302,247
Insurance proceeds receivable	-	-	1,041,590	1,041,590
Due from parcel developer	173,421	-	-	173,421
Other receivables	8,187	-	-	8,187
Prepaid expenses	191,563	2,340	-	193,903
Property and equipment, net	79,413	-	-	79,413
Other assets	39,790	-	-	39,790
Interfund balance	(1,040,259)	(1,824)	1,042,083	-
Total assets	\$ 1,896,784	\$ 2,351,034	\$ 4,382,663	\$ 8,630,481
Liabilities and Fund Balance				
Liabilities				
Accounts payable	\$ 204,483	\$ 285,264	\$ 195,015	\$ 684,762
Accrued expenses	508,335	3,976	3,500	515,811
Accrued hail damage repairs	-	-	1,322,245	1,322,245
Retainage payable	-	99,871	-	99,871
Prepaid assessments	565,193	-	-	565,193
Insurance finance agreement	54,637	-	-	54,637
Performance obligation	-	-	1,951,674	1,951,674
Total liabilities	1,332,648	389,111	3,472,434	5,194,193
Fund balance - designated	-	1,961,923	910,229	2,872,152
Fund balance - undesignated	564,136	-	-	564,136
Total fund balance	564,136	1,961,923	910,229	3,436,288
Total liabilities and fund balance	\$ 1,896,784	\$ 2,351,034	\$ 4,382,663	\$ 8,630,481

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

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

For the year ended December 31,

2019

	Operating Fund	Enhancement Fund	Replacement Fund	Total
Revenue				
Regular assessments	\$ 3,648,654	\$ -	\$ 210,680	\$ 3,859,334
Insurance assessments	-	-	410,081	410,081
Special assessments	-	-	250,000	250,000
Parcel developer deficit funding	153,410	-	-	153,410
Interest income	9,596	30,579	21,726	61,901
Other income	215,492	-	-	215,492
Insurance proceeds	-	-	5,549,767	5,549,767
Settlement income	-	-	81,459	81,459
Total revenue	4,027,152	30,579	6,523,713	10,581,444
Expenses				
Administrative	890,532	-	-	890,532
Bad debt provision	25,266	-	-	25,266
Community enhancements	-	1,714,462	-	1,714,462
Depreciation	29,648	-	-	29,648
Hail damage repairs	-	-	5,159,896	5,159,896
Insurance	423,015	-	-	423,015
Maintenance and repairs	2,061,979	-	346,132	2,408,111
Settlement	350,000	-	-	350,000
Utilities	693,680	-	-	693,680
Total expenses	4,474,120	1,714,462	5,506,028	11,694,610
Excess (Deficit) of Revenue over Expenses	(446,968)	(1,683,883)	1,017,685	(1,113,166)
Beginning Fund Balance (Deficit), Restated	960,665	2,913,845	(151,713)	3,722,797
Interfund Transfer	1,080	-	(1,080)	-
Capital Contributions	49,359	-	45,337	94,696
Community Enhancement Fees	-	731,961	-	731,961
Ending Fund Balance	\$ 564,136	\$ 1,961,923	\$ 910,229	\$ 3,436,288

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

Craig Ranch Community Association, Inc.
Statement of Cash Flows

For the year ended December 31,

2019

	Operating Fund	Enhancement Fund	Replacement Fund	Total
Operating Activities				
Excess (deficit) of revenue over expenses	\$ (446,968)	\$ (1,683,883)	\$ 1,017,685	\$ (1,113,166)
Adjustments to reconcile excess (deficit) of revenue over expenses to net cash provided (used) by operating activities:				
Bad debt provision	25,266	-	-	25,266
Depreciation	29,648	-	-	29,648
Changes in operating assets and liabilities:				
Accounts receivable	(208,499)	-	2,390	(206,109)
Insurance proceeds receivable	-	-	(1,041,590)	(1,041,590)
Settlement receivable	-	-	1,501,587	1,501,587
Due from parcel developer	(34,352)	-	-	(34,352)
Other receivables	-	10,979	-	10,979
Prepaid expenses	(74,156)	(2,240)	-	(76,396)
Other assets	(1,680)	-	-	(1,680)
Accounts payable	88,425	285,264	187,665	561,354
Accrued expenses	289,004	3,976	(57,276)	235,704
Retainage payable	-	99,871	-	99,871
Accrued hail damage repairs	-	-	(179,342)	(179,342)
Prepaid assessments	(250,869)	-	-	(250,869)
Insurance finance agreements	16,799	-	-	16,799
Performance obligation	-	-	153,836	153,836
Interfund balance	1,117,051	(125,197)	(991,854)	-
Net cash provided (used) by operating activities	549,669	(1,411,230)	593,101	(268,460)
Investing Activities				
Purchase of certificates of deposit	-	-	(643,606)	(643,606)
Net cash provided (used) by investing activities	-	-	(643,606)	(643,606)
Financing Activities				
Interfund transfer	1,080	-	(1,080)	-
Capital contributions and Community enhancement fees	49,359	731,961	45,337	826,657
Net cash provided (used) by financing activities	50,439	731,961	44,257	826,657
Net Increase (Decrease) in Cash	600,108	(679,269)	(6,248)	(85,409)
Cash at Beginning of Year	1,542,314	3,029,787	1,661,632	6,233,733
Cash at End of Year	\$ 2,142,422	\$ 2,350,518	\$ 1,655,384	\$ 6,148,324

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

Craig Ranch Community Association, Inc.

Notes to Financial Statements

NOTE 1: DESCRIPTION OF THE ORGANIZATION

Craig Ranch Community Association, Inc. (the "Association") (a homeowners' 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 was organized for the purpose of maintaining and protecting the 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.

During 2019, management and accounting services were provided by Capital Consultants Management Corporation. As of July 1, 2020, 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).

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, Inc.
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 allocated to the pooled components on a pro-rata basis.

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 \$176,854 at December 31, 2019.

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, Inc.
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.

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, 2019. 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

Effective January 1, 2019, the Association adopted Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. This topic requires the recognition of revenue when performance obligation 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, November 12, 2020. See Notes 15 and 18 for relevant disclosures. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification. The Association elected to adopt the revenue recognition standard effective January 1, 2019 using the modified retrospective method. This method allows the standard to be adopted retrospectively through a cumulative adjustment recognized upon adoption. The cumulative adjustment recorded upon adoption of ASC 606 consisted of changes in the recognition of replacement fund assessments, and accordingly the accumulated funds for future major repairs and replacements are now largely classified as a performance obligation liability and not fund balance. As a result, the Association has restated its beginning fund balance as follows:

<u>December 31,</u>	<u>2019</u>
Beginning replacement fund balance, before restatement	\$ 1,646,125
Cumulative effect of change in accounting principle	(1,797,838)
Beginning replacement fund balance (deficit), as restated	<u>\$ (151,713)</u>

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 covering the estimated costs of operating the Association during the coming year. The annual rate for 2019 for all owners was \$305.

Subdivisions and service areas within the Association are charged additional assessment fees for expenses that directly impact their subdivisions and service areas as follows: Members of Craig Ranch North neighborhood were assessed an additional annual assessment of \$283. Members of Estates at Craig Ranch were assessed an additional monthly assessment ranging from \$130 to \$160. Members of Hemingway at Craig Ranch ("Hemingway") were assessed an additional monthly assessment of \$160. Members of Chateaus of the Settlement at Craig Ranch ("Chateaus") were assessed an additional monthly assessment of \$235. Members of Settlement Townhomes were assessed an additional monthly assessment of \$260. Members of Southern Hills at Craig Ranch were assessed an additional annual assessment of \$420. Members of Spicewood at Craig Ranch were assessed an additional semi-annual assessment of \$395. Members of The Trails at Craig Ranch were assessed an additional semi-annual assessment of \$216. Members of The Grove at Craig Ranch were assessed an additional semi-annual assessment of \$210. Members of Watters Branch at Craig Ranch were assessed an additional semi-annual assessment of \$408.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 3: OWNERS' ASSESSMENTS (Continued)

Budgeted regular assessments for the year ended December 31, 2019 totaled \$4,013,170, of which \$364,516 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>	2019		
	Operating Fund	Replacement Fund	Total
Budgeted regular assessments	\$ 3,648,654	\$ 364,516	\$ 4,013,170
Less additions to performance obligation	-	(364,516)	(364,516)
Add releases from performance obligation	-	210,680	210,680
 Total assessments	 \$ 3,648,654	 \$ 210,680	 \$ 3,859,334

In October 2019, the Association levied a special assessment for the Settlement Townhomes service area to fund the deficit between the settlement and the cost of the roof repairs and litigation expenses relating to hailstorm damages incurred in 2016 (see Note 14). The assessment amount is \$12,500 per townhome, for a total special assessment of \$250,000, due on or before December 31, 2019. Since the related costs were recognized in prior years, the entire special assessment has been reported as revenue on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance. At December 31, 2019, approximately \$220,000 of this special assessment is included in Accounts receivable, net on the accompanying Balance Sheet.

In June 2019, the Association levied an insurance assessment for the Hemingway at Craig Ranch neighborhood totaling approximately \$1.4 million to fund the 2% insurance deductible related to the hail damage event in March 2019 (see Note 15). The assessment had a due date of September 1, 2019, and the individual owner assessment was \$3,998 per unit. The hail damage repairs project was completed in 2019. The final cost of repairs came in much less than anticipated, so the special assessment of \$3,998 per unit was reduced to \$1,158 per unit. Each owners account was credited \$2,840 in June 2020 to reduce the insurance assessment down to \$1,158. Accordingly, the entire insurance assessment, net of the subsequent credit, totaling \$410,081 has been reported as revenue on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance.

Craig Ranch Community Association, Inc.

Notes to Financial Statements

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, parcel and special assessments, which are being recognized at a point in time. As of December 31, 2019, the Association has reported a performance obligation liability totaling \$1,951,674, 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 the income earned from insurance and settlement proceeds, which are recognized as revenue when the realization is probable and estimable, or 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, Inc.
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>	2019
Recognized over time	
Operating fund assessments	\$ 3,648,654
Recognized at a point in time	
Replacement fund assessments	210,680
Insurance assessments	410,081
Special assessments	250,000
Parcel developer funding	153,410
Other income	215,492
Not subject to ASC Topic 606	
Interest income	61,901
Insurance proceeds	5,549,767
Settlement income	81,459
Total revenue	\$ 10,581,444

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

<i>For the year ended December 31,</i>	2019
Accounts receivable, net - beginning balance	\$ 117,601
Accounts receivable, net - ending balance	302,247
Contract assets - no beginning or ending balance for the year	
Contract liabilities	
Prepaid assessments - beginning balance	816,062
Prepaid assessments - ending balance	565,193
Performance obligation liabilities - beginning balance	1,797,838
Performance obligation liabilities - ending balance	1,951,674

Craig Ranch Community Association, Inc.
Notes to Financial Statements

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.

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 2019, 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 23.

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 \$364,516 was included in the 2019 budgets for the master and all service areas. The budgeted funding was based on a full funding plan, except for the Chateaus, Hemingway, Craig Ranch North, and Settlement Townhomes were based on a partial funding plan, and Southern Hills at Craig Ranch was not funded. The Replacement Fund is not being funded at the recommended level sufficient to prevent the need for a special assessment. The Association collected \$45,337 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. 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, 2019, the Association had no income tax expense.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 6: INCOME TAXES (Continued)

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, 2019, 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 policy is to record interest expense or penalties related to income tax in (operating) expense. For the year ended December 31, 2019, 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 2016.

In 2019, the Association began investigating whether it still qualifies as a tax-exempt organization under Section 501(c)(4) of the Internal Revenue Code. Regardless of the outcome of the investigation, there is not an expectation of any material impact on the Association's financial statements; however, the ultimate outcome is unknown at this time.

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: PROPERTY AND EQUIPMENT

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

<i>December 31,</i>	2019
Office leasehold improvements	\$ 296,460
Furniture and equipment	5,266
Total property and equipment	301,726
Less accumulated depreciation	(222,313)
Property and equipment, net	\$ 79,413

Depreciation expense for the year ended December 31, 2019 was \$29,648.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 9: INTERFUND BALANCE

As of December 31, 2019, the Operating Fund owed \$1,042,083 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. See Note 15 for further details about the insurance proceeds and hailstorm damage repairs. This interfund balance is reported on the accompanying Balance Sheet.

NOTE 10: INSURANCE FINANCE AGREEMENT

The Association has obtained a short-term note payable with financial institutions to finance its annual insurance policy premiums. The note was payable in monthly installments of \$27,318, bore interest at a rate of 8.7%, and matured in January 2020. The balance of the note at December 31, 2019 totaled \$54,637.

NOTE 11: 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 subdivision or 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, 2019, the Association assessed capital contributions of \$49,359 and \$45,337 in the Operating and Replacement Funds, respectively.

NOTE 12: 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 deems beneficial to the general good and welfare of the Community (e.g. enhancements to recreational areas, etc.). For the year ended December 31, 2019, the Association assessed enhancement fees of \$731,961 and incurred expenses of \$1,714,462, which is reported in the Enhancement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance (see Note 16). Accumulated enhancement fees are included in Enhancement Fund balance on the accompanying Balance Sheet.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 13: PARCEL DEVELOPER DEFICIT FUNDING

Each service area has a parcel developer, who are not related to the Developer. According to the governing documents for each service area, the parcel developer can choose, instead of assessments, to pay any shortfall under the operating budget, excluding bad debt. For the year ended December 31, 2019, the operations of certain service areas were funded by parcel developers, and parcel developer funding totaled \$153,410, of which \$173,421 was reported as Due from parcel developer on the accompanying Balance Sheet.

NOTE 14: SETTLEMENT INCOME

In 2017, the Association filed suit against its insurance company and agents for failing to provide coverage for the roofs at the Settlement Townhomes as a result of hail damage. The case was favorably settled in January 2019 for approximately \$1.5 million, which was recorded as revenue in 2017. In 2019, the Association received additional settlement income of \$81,459 related to this claim, which is reported as Settlement income in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance. The hail damage repairs for Settlement Townhomes were completed in 2019.

NOTE 15: 2019 HAIL DAMAGE INSURANCE CLAIMS

In March 2019, a hail storm caused damage throughout the Association. Several service areas within the Association filed claims for the hail damage repairs.

The Chateaus claim totaled \$552,322, and was later updated to \$675,335. In 2020, the Chateaus received insurance proceeds totaling \$576,732, which represents the amount of the claim, less recoverable depreciation of \$76,271 and the net deductible of \$25,000. Insurance proceeds totaling \$653,003, which includes the recoverable depreciation amount, is included in Insurance proceeds receivable and Insurance proceeds in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. In June 2020, the Chateaus entered into a repairs contract, including addendum, totaling \$675,335, which is included in Accrued hail damage repairs and Hail damage repairs in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. The project was started in June 2020 and is expected to be completed in 2020.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 15: 2019 HAIL DAMAGE INSURANCE CLAIMS (Continued)

The Estates at Craig Ranch ("The Estates") claim totaled \$122,413. In 2019, the Estates received insurance proceeds totaling \$79,269, which represents the amount of the claim, less recoverable depreciation of \$42,144 and deductible of \$1,000. Insurance proceeds totaling \$121,413, which includes the recoverable depreciation amount, is included in Insurance proceeds in the Replacement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance and the recoverable depreciation of \$42,144 is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2019. In June 2020, the Estates entered into a repairs contract totaling \$75,800. Total estimated repairs totaled \$122,413, which is included in Accrued hail damage repairs and Hail damage repairs in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. A portion of the repairs project was started in June 2020 and is expected to be completed in 2020.

The Hemingway claim totaled approximately \$5.7 million. In August 2019, the Association received insurance proceeds of approximately \$4.3 million, which is reported as Insurance proceeds on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance, and represents the final claim net of the deductible. In addition, the Association approved a contract with a contractor to make the related repairs totaling approximately \$4.3 million. The hail damage repairs project was completed in 2019. The final cost of repairs came in less than anticipated at approximately \$3.8 million, which is included in Hail damage repairs in the Replacement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance. In June 2019, the Association levied an insurance assessment to fund the 2% insurance deductible related to the hail damage event in March 2019 (see Note 3).

Craig Ranch North claim totaled \$167,795. In 2019 and 2020, the Estates received insurance proceeds totaling \$87,209 and \$46,139, respectively, which combined represent the amount of the claim, less recoverable depreciation of \$33,447 and deductible of \$1,000. Insurance proceeds totaling \$166,795, which includes the recoverable depreciation amount, is included in Insurance proceeds in the Replacement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance and \$79,586, which represents recoverable depreciation and the proceeds received in 2020, is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2019. In May 2020, Craig Ranch North entered into a repairs contract totaling \$167,795, which is included in Accrued hail damage repairs and Hail damage repairs in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. The project was started in May 2020 and is expected to be completed in 2020.

The Settlement Townhomes claim totaled \$267,319. In 2020, the Settlement Townhomes received insurance proceeds totaling \$231,125, which represents the amount of the claim, less recoverable depreciation of \$24,726, supplemental claim of \$1,468 and net deductible of \$10,000. Insurance proceeds totaling \$257,319, which includes the recoverable depreciation and supplemental claim amounts, is included in Insurance proceeds receivable and Insurance proceeds in the Replacement

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 15: 2019 HAIL DAMAGE INSURANCE CLAIMS (Continued)

Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. In June 2020, the Settlement Townhomes entered into a repairs contract totaling \$267,319, which is included in Accrued hail damage repairs and Hail damage repairs in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively. The project was started in June 2020 and is expected to be completed in 2020.

The Association also filed a claim for certain common property, and for the Spicewood, Southern Hills, Trails, Watters Branch, and The Grove service areas, totaling \$89,383. In 2019, the Estates received insurance proceeds totaling \$65,015, which represents the amount of the claim, less recoverable depreciation of \$9,538 and deductible of approximately \$15,000. Insurance proceeds totaling \$74,553, which includes the recoverable depreciation amount, is included in Insurance proceeds in the Replacement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance and the recoverable depreciation of \$9,538 is included in Insurance proceeds receivable on the accompanying Balance Sheet at December 31, 2019. Total estimated repairs totaled \$89,383, which is included in Accrued hail damage repairs and Hail damage repairs in the Replacement Fund on the accompanying Balance Sheet and Statement of Revenue, Expenses and Changes in Fund Balance, respectively.

NOTE 16: COMMITMENT

The Association has approximately \$784,000 remaining on a contract for the construction of a new amenity center, with a total cost of approximately \$2.2 million. Construction costs totaling approximately \$1.4 million are included in Community enhancements in the Enhancement Fund on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance, of which approximately \$196,000 and approximately \$100,000 are included in Accounts payable and Retainage payable in the Enhancement Fund on the accompanying Balance Sheet. The Association expects the project to be completed in 2020.

NOTE 17: SETTLEMENT EXPENSE

In 2019, a third party consultant was hired to assist the Association in handling the hail damage/claim process at the Chateaus, Settlement Townhomes and Hemingway service areas (see Note 15). The Association disputed the invoice for their services, which totaled \$570,062, and in November 2019, the consultant filed a lawsuit against the Association. In May 2020, the Association reached an agreement to settle in the amount of \$350,000, which is included in Accrued expenses on the accompanying Balance Sheet and Settlement expense on the accompanying Statement of Revenue, Expenses and Changes in Fund Balance.

Craig Ranch Community Association, Inc.
Notes to Financial Statements

NOTE 18: SUBSEQUENT EVENTS

In March 2020, the World Health Organization made the assessment that the outbreak of a novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the operating activities and results of the Association. The occurrence and extent of such an impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain.

In June 2020, the Association levied insurance renewal assessments for three of the service areas to help fund the insurance premiums for the 2020-2021 policy periods. The Chateaus assessment is \$1,151 per owner, totaling \$44,880. The Settlement Townhomes assessment is \$242 per owner, totaling \$4,830. The Hemingway assessment is \$369 per owner, totaling \$130,668. The related insurance premiums are due in 2020; accordingly, the revenue from these insurance renewal assessments will be recognized in 2020.

In addition, the Association obtained four short-term notes payable with financial institutions to finance its annual insurance policy premiums. The notes are payable in monthly installments ranging from \$3,358 to \$16,664, bear interest at rates ranging from 7.8% to 8.7%, and mature in May 2021.



Supplementary Information

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

For the year ended December 31,

2019

Component	Beginning Balance	Additions	Subtractions	Transfers	Ending Balance
Master					
Pooled items:					
Office equipment			\$ (2,295)		
Community elements			(6,016)		
Crossroads Park			(4,187)		
Dog park			(3,500)		
Signage			(1,138)		
Dr. Cooper Park			(19,690)		
Total pooled	\$ 386,929	\$ 63,577	(36,826)	\$ -	\$ 413,680
Chateau's of the Settlement at Craig Ranch					
Pooled items:					
Exterior building elements			(684,052)		
Total pooled	90,920	659,663	(684,052)	-	66,531
Estates at Craig Ranch					
Nonpooled items:					
Streets	98,769	32,893	-	-	131,662
Pooled items:					
Access control and perimeter elements			(131,867)		
Pond elements			(16,658)		
Total pooled	129,449	184,859	(148,525)	-	165,783
The Grove at Craig Ranch					
Pooled items:					
Shade structure			(10,039)		
Total pooled	19,616	22,990	(10,039)	-	32,567
Hemingway at Craig Ranch					
Pooled items:					
Clubhouse elements			(8,659)		
Exterior building elements			(3,826,488)		
Pool elements			(10,730)		
Property site elements			(50,446)		
Total pooled	682,753	4,799,676	(3,896,323)	-	1,586,106

(continued)

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

For the year ended December 31,

2019

Component	Beginning Balance	Additions	Subtractions	Transfers	Ending Balance
Craig Ranch North					
Pooled items:					
Pool and pool house elements			\$ (171,200)		
Property site elements			(142,039)		
Total pooled	\$ 304,635	\$ 224,568	(313,239)	\$ -	\$ 215,964
Settlement Townhomes					
Pooled items:					
Exterior building elements			(344,368)		
Total pooled	(151,080)	594,288	(344,368)	(520)	98,320
Southern Hills					
Pooled items:					
Fences and trellis			(5,381)		
Guard house			(13,518)		
Lighting, monument			(3,141)		
Total pooled	(633)	18,320	(22,040)	(560)	(4,913)
Spicewood					
Pooled items:					
Mailbox stations			(3,848)		
Total pooled	-	27,971	(3,848)	-	24,123
Trails					
Pooled items:					
Gazebo			(10,512)		
Mailbox stations			(2,766)		
Total pooled	32,910	13,560	(13,278)	-	33,192
Watters Branch					
Pooled items:					
Property site elements			(7,127)		
Pool and pool house elements			(26,363)		
Total pooled	51,857	80,521	(33,490)	-	98,888
Total	\$ 1,646,125	\$ 6,722,886	\$ (5,502,180)	\$ (1,080)	\$ 2,861,903

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

For the year ended December 31,

2019

	Actual	Budget (Unaudited)	Variance - Favorable (Unfavorable) (Unaudited)
Revenue			
Regular assessments	\$ 3,648,654	\$ 3,490,876	\$ 157,778
Parcel developer deficit funding	153,410	157,525	(4,115)
Interest income	9,596	4,800	4,796
Other income	215,492	133,648	81,844
Total revenue	4,027,152	3,786,849	240,303
Expenses			
Administrative	890,532	847,625	(42,907)
Bad debt provision	25,266	34,646	9,380
Depreciation	29,648	-	(29,648)
Insurance	423,015	292,098	(130,917)
Maintenance and repairs	2,061,979	2,051,972	(10,007)
Settlement	350,000	-	(350,000)
Utilities	693,680	680,526	(13,154)
Total expenses	4,474,120	3,906,867	(567,253)
Excess (deficit) of revenue over expenses	(446,968)	(120,018)	(326,950)
Beginning fund balance	960,665	-	960,665
Interfund transfer	1,080	-	1,080
Capital contributions	49,359	46,892	2,467
Ending fund balance (deficit)	\$ 564,136	\$ (73,126) *	\$ 637,262

* Deficit is primarily due to budgeted deficits in two service areas.

Craig Ranch Community Association, Inc.
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 12/31/19
Master			
Pooled items:			
Clubhouse elements (The Compass)	9 - 30+	\$ 452,500	
Community elements	1 - 30+	1,283,000	
Crescent Park	8 - 30+	193,300	
Crossroads Park	4 - 30+	955,380	
Dog park	2 - 30+	228,070	
Dr. Cooper Park	4 - 12	363,600	
Heron Bay Park	8 - 18	15,800	
Millie Cooper Park	3 - 30+	168,300	
Total pooled items		3,659,950	\$ 413,680
Chateau's of the Settlement at Craig Ranch			
Pooled items:			
Exterior building elements	7 - 23	1,352,872	
Property site elements	0 - 30+	347,600	
Total pooled items		1,700,472	66,531
Estates at Craig Ranch			
Nonpooled items:			
Streets	2 - 30+	4,118,000	131,662
Pooled items:			
Access control and perimeter elements	1 - 25	639,220	
Pond elements	1 - 30+	827,160	
Total pooled items		1,466,380	165,783
The Grove at Craig Ranch			
Pooled items:			
Concrete sidewalks	3 - 30+	169,400	
Fences	4 - 30	28,560	
Landscaping - tree maintenance	1	3,500	
Mailbox stations	22	40,000	
Playground equipment	17	37,500	
Shade structure	7 - 17	15,000	
Signage	17	7,000	
Site furniture	15	15,000	
Total pooled items		315,960	32,567

(continued)

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

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/19
Hemingway at Craig Ranch			
Pooled items:			
Clubhouse elements	2 - 20	219,750	
Exterior building elements	1 - 30	3,775,530	
Pool elements	4 - 16	188,450	
Property site elements	1 - 30+	1,021,640	
Total pooled items		5,205,370	1,586,106
Craig Ranch North			
Pooled items:			
Pool and pool house elements	1 - 25	511,220	
Property site elements	1 - 30+	1,306,670	
Total pooled items		1,817,890	\$ 215,964
Settlement Townhomes			
Pooled items:			
Exterior building elements	6 - 22	72,059	
Property site elements	9 - 30+	76,250	
Total pooled items		148,309	98,320
Southern Hills			
Pooled items:			
Concrete sidewalks	4 - 30+	393,800	
Fences and trellis	3 - 30	59,840	
Landscaping	1	4,000	
Mailbox stations	21	54,000	
Pergolas	21 - 26	48,000	
Playground equipment	14	70,000	
Signage	16	5,000	
Site furniture	16	11,500	
Total pooled items		646,140	(4,913)

(continued)

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

Component	Estimated Remaining Useful Life	Estimated Replacement Cost	Accumulated Funds at 12/31/19
Spicewood			
Pooled items:			
Concrete sidewalks	3 - 30+	78,100	
Landscaping - tree maintenance	1	2,500	
Mailbox stations	21	38,000	
Retaining wall, masonry, inspection and capital repairs	16	2,000	
Signage	16	6,000	
String lights	19	4,000	
Total pooled items		130,600	24,123
Trails			
Pooled items:			
Concrete sidewalks	3 - 30+	211,200	
Gazebo	23	33,500	
Landscaping - tree maintenance	1	2,000	
Mailbox stations	20	16,000	
Pavers	15	14,420	
Site furniture	13	8,400	
Total pooled items		285,520	33,192
Watters Branch			
Pooled items:			
Property site elements	0 - 30+	165,620	
Pool and pool house elements	4 - 30	144,285	
Total pooled items		309,905	98,888
Total		\$ 19,804,496	\$ 2,861,903