Craig Ranch Community Association, Inc.

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

December 31, 2017



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INDEPENDENT AUDITORS' REPORT

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

Carr, Riggs & Ingram, LLC Certified Public Accountants 500 Grand Boulevard Suite 210 Miramar Beach, Florida 32550

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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, 2017, and the related Statements of Revenues, 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the December 31, 2016 financial statements of Craig Ranch Community Association, Inc., and we expressed an unmodified opinion on those audited financial statements in our report dated September 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 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 Replacement Fund Balance and Schedule of Operating Fund Revenues 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

Can, Rigge & Ingram, L.L.C.

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, LLC

Miramar Beach, Florida December 5, 2019

Craig Ranch Community Association, Inc. Balance Sheet

| December 31, | | 2016 | | | |
|------------------------------|-------------------|---------------------|---------------------|--------------|--|
| | Operating Fund | Enhancement Fund | Replacement Fund | Total | Total (For Comparative Purposes) |
| | runa | runa | runa | TOLAT | Purposes) |
| Assets | | | | | |
| Cash | \$ 1,474,389 | \$ - | \$ - | \$ 1,474,389 | \$ 1,121,998 |
| Designated cash | - | 2,477,946 | 1,578,428 | 4,056,374 | 3,500,919 |
| Accounts receivable, net | 89,619 | - | - | 89,619 | 85,526 |
| Settlement receivable | - | - | 1,501,587 | 1,501,587 | - |
| Due from parcel developer | 30,981 | - | - | 30,981 | - |
| Other receivables | 42,864 | - | - | 42,864 | 47,145 |
| Prepaid expenses | 121,779 | 5,781 | - | 127,560 | 129,188 |
| Property and equipment, net | 138,709 | - | - | 138,709 | 168,357 |
| Other assets | 27,290 | - | - | 27,290 | 13,430 |
| Interfund balance | (52,163) | (119,482) | 171,645 | - | - |
| Total assets | \$ 1,873,468 | \$ 2,364,245 | \$ 3,251,660 | \$ 7,489,373 | \$ 5,066,563 |
| Liabilities and Fund Balance | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 78,856 | \$ - | \$ 8,333 | \$ 87,189 | \$ 43,122 |
| Accrued expenses | 116,236 | 19,368 | 19,388 | 154,992 | 55,268 |
| Accrued hail damage repairs | - | - | 1,501,587 | 1,501,587 | - |
| Prepaid assessments | 695,197 | - | = | 695,197 | 621,451 |
| Insurance finance agreements | 33,561 | - | - | 33,561 | 40,981 |
| Total liabilities | 923,850 | 19,368 | 1,529,308 | 2,472,526 | 760,822 |
| | | 2 244 077 | 4 700 050 | 4.057.000 | 2 465 077 |
| Fund balance - designated | - 040 540 | 2,344,877 | 1,722,352 | 4,067,229 | 3,465,977 |
| Fund balance - undesignated | 949,618 | - | - | 949,618 | 839,764 |
| Total fund balance | 949,618 | 2,344,877 | 1,722,352 | 5,016,847 | 4,305,741 |
| Total liabilities and fund | | | | | |
| balance | \$ 1,873,468 | \$ 2,364,245 | \$ 3,251,660 | \$ 7,489,373 | \$ 5,066,563 |

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

| Year ended December 31, | | 2016 | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | | | | | Total (For |
| | Operating | Enhancement | Replacement | | Comparative |
| | Fund | Fund | Fund | Total | Purposes) |
| Revenues | | | | | |
| Regular assessments | \$ 2,839,996 | \$ - | \$ 326,529 | \$ 3,166,525 | \$ 2,860,096 |
| Parcel developer funding | 83,681 | - | - | 83,681 | 26,475 |
| Interest income | 3,851 | 5,770 | 4,660 | 14,281 | 12,264 |
| Other income | 162,657 | 750 | , - | 163,407 | 172,180 |
| Insurance proceeds | - | - | - | , - | 86,993 |
| Settlement income | - | - | 1,501,587 | 1,501,587 | - |
| Total revenues | 3,090,185 | 6,520 | 1,832,776 | 4,929,481 | 3,158,008 |
| Total revenues | 3,030,103 | 0,320 | 1,032,770 | 4,323,401 | 3,130,000 |
| Expenses | | | | | |
| Administrative | 727,757 | - | - | 727,757 | 671,915 |
| Bad debt provision | 42,122 | - | - | 42,122 | 319,591 |
| Community enhancements | - | 293,090 | - | 293,090 | 118,651 |
| Depreciation | 29,648 | - | - | 29,648 | 29,888 |
| Hail damage repairs | - | - | 1,501,587 | 1,501,587 | - |
| Insurance | 324,697 | - | - | 324,697 | 304,347 |
| Maintenance and repairs | 1,357,369 | - | 264,152 | 1,621,521 | 1,395,986 |
| Utilities | 545,323 | - | - | 545,323 | 495,470 |
| Total expenses | 3,026,916 | 293,090 | 1,765,739 | 5,085,745 | 3,335,848 |
| Excess (deficit) of revenues | | | | | |
| over expenses | 63,269 | (286,570) | 67,037 | (156,264) | (177,840) |
| Beginning fund balance | 839,764 | 1,863,239 | 1,602,738 | 4,305,741 | 3,973,958 |
| Capital contributions: | | | | | |
| From non-developer owners | 46,585 | - | 52,577 | 99,162 | 55,818 |
| Community enhancement | | | | | |
| fees | | 768,208 | - | 768,208 | 453,805 |
| Ending fund balance | \$ 949,618 | \$ 2,344,877 | \$ 1,722,352 | \$ 5,016,847 | \$ 4,305,741 |

Craig Ranch Community Association, Inc. Statement of Cash Flows

| Year ended December 31, | | 2016 | | | | | |
|-------------------------------------|--------------|------|-----------|----|-----------|--------------|--------------|
| | | | | | | | Total (For |
| | Operating | En | hancement | Re | = | | Comparative |
| | Fund | | Fund | | Fund | Total | Purposes) |
| Operating activities | | | | | | | |
| Member revenue collected | \$ 3,027,188 | \$ | - | \$ | 334,556 | \$ 3,361,744 | \$ 3,449,976 |
| Parcel developer funding received | 52,700 | | | | - | 52,700 | 26,475 |
| Interest income received | 3,851 | | 5,770 | | 4,660 | 14,281 | 12,264 |
| Insurance proceeds received | - | | - | | - | - | 86,993 |
| Cash paid for expenses | (3,162,610) | | 13,587 | | (239,226) | (3,388,249) | (3,311,717) |
| Interfund balance | 384,677 | | (408,589) | | 23,912 | - | - |
| Net cash provided (used) by | | | | | | | |
| operating activities | 305,806 | | (389,232) | | 123,902 | 40,476 | 263,991 |
| | | | (000)=0=) | | | , | |
| Investing activities | | | | | | | |
| Purchase of certificates | | | | | | | |
| of deposit | - | | - | | - | - | 249,879 |
| | | | | | | | |
| Net cash provided (used) by | | | | | | | 242.072 |
| investing activities | - | | - | | - | | 249,879 |
| Financing activities | | | | | | | |
| Capital contributions and Community | | | | | | | |
| enhancement fees | 46,585 | | 768,208 | | 52,577 | 867,370 | 509,623 |
| | , | | , | | , | | · · |
| Net cash provided (used) by | | | | | | | |
| financing activities | 46,585 | | 768,208 | | 52,577 | 867,370 | 509,623 |
| Niek in annan (da annan Nie anak | 252 204 | | 270.076 | | 476 470 | 007.046 | 4 022 402 |
| Net increase (decrease) in cash | 352,391 | | 378,976 | | 176,479 | 907,846 | 1,023,493 |
| Cash at beginning of year | 1,121,998 | | 2,098,970 | | 1,401,949 | 4,622,917 | 3,599,424 |
| Cash at end of year | \$ 1,474,389 | \$ | 2,477,946 | \$ | 1,578,428 | \$ 5,530,763 | \$ 4,622,917 |
| · | . , | | · · · | , | . , | · · | · · |
| Cash reconciliation | | | | | | | |
| Cash | \$ 1,474,389 | \$ | - | \$ | - | \$ 1,474,389 | \$ 1,121,998 |
| Designated cash | - | | 2,477,946 | | 1,578,428 | 4,056,374 | 3,500,919 |
| Total cash | \$ 1,474,389 | \$ | 2,477,946 | \$ | 1,578,428 | \$ 5,530,763 | \$ 4,622,917 |
| | . , | | | | • • | | |

(continued)

Craig Ranch Community Association, Inc. Statement of Cash Flows (Continued)

| Year ended December 31, 2017 | | | | | 2016 | | | | | |
|---------------------------------------|----|----------|-----|-----------|------|-------------|----|------------|----|-----------|
| | | | | | | | | | | otal (For |
| | 0 | perating | Enl | hancement | Re | - | | | | mparative |
| | | Fund | | Fund | | Fund | | Total | P | urposes) |
| Reconciliation of excess (deficit) of | : | | | | | | | | | |
| revenues over expenses to net | | | | | | | | | | |
| cash provided (used) by | | | | | | | | | | |
| operating activities: | | | | | | | | | | |
| Excess (deficit) of revenues | | | | | | | | | | |
| over expenses | \$ | 63,269 | \$ | (286,570) | \$ | 67,037 | \$ | (156,264) | \$ | (177,840) |
| Adjustments to reconcile excess | • | • | · | , , , | | , | | , , , | • | , , , |
| (deficit) of revenues over | | | | | | | | | | |
| expenses to net cash provided | | | | | | | | | | |
| (used) by operating activities: | | | | | | | | | | |
| Bad debt provision (recovery) | | 42,122 | | - | | - | | 42,122 | | 319,591 |
| Depreciation | | 29,648 | | - | | - | | 29,648 | | 29,888 |
| Changes in operating assets | | | | | | | | | | |
| and liabilities: | | | | | | | | | | |
| Accounts receivable, net | | (49,961) | | - | | 8,027 | | (41,934) | | (29,540) |
| Settlement receivable | | - | | - | | (1,501,587) | (1 | L,501,587) | | - |
| Due from parcel developer | | (30,981) | | - | | - | | (30,981) | | - |
| Other receivables | | - | | - | | - | | - | | (8,027) |
| Prepaid expenses | | 7,409 | | (5,781) | | = | | 1,628 | | 138,398 |
| Other assets | | (13,860) | | - | | - | | (13,860) | | (5,900) |
| Accounts payable | | 35,734 | | - | | 8,333 | | 44,067 | | (460) |
| Accrued expenses | | 63,763 | | 19,368 | | 16,593 | | 99,724 | | (7,303) |
| Accrued hail damage repairs | | - | | - | | 1,501,587 | 1 | L,501,587 | | - |
| Income tax payable | | - | | | | - | | - | | - |
| Prepaid assessments | | 73,746 | | - | | - | | 73,746 | | 127,649 |
| Insurance finance | | | | | | | | | | |
| agreements | | (7,420) | | - | | - | | (7,420) | | (122,465) |
| Interfund balance | | 92,337 | | (116,249) | | 23,912 | | - | | |
| Net cash provided (used) by | | | | | | | | | | |
| operating activities | \$ | 305,806 | \$ | (389,232) | \$ | 123,902 | \$ | 40,476 | \$ | 263,991 |

NOTE 1: 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 4,508 equivalent units of ownership, including 3,027 residential units and 1,481 commercial units. At December 31, 2017, approximately 400 commercial equivalent units were owned by VCIM Partners, LP (the "Developer"). 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. Major decisions are referred to the general Association membership before action is taken.

During 2017, management and accounting services were provided by Capital Consultants Management Corporation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Association's significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Presentation

The accompanying financial statements include the assets, liabilities, fund balances, revenues, and expenses of the Association as determined using the accrual basis of accounting. The financial statements include certain prior year summarized comparative information in total but not by fund. Also, certain prior year disclosures have not been included. 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, 2016, from which the summarized information was derived.

Reclassifications

Certain items for the prior year have been reclassified in the financial statements in order to conform with the current year presentation.

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. At the end of the year, excess funds are retained by the fund generating such excess during the year. The following describes the purpose of each fund:

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 and the Association's Manager.

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 9 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.

Revenue Recognition

Assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as Prepaid assessments on the Balance Sheet. Developer funding is recognized as revenue when the obligation to provide the funds to the Association is created. Other income, which consists primarily of late charges and transfer fees, is recognized as revenue when earned. Settlement income is recognized as revenue when the realization is probable and estimable.

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 the collectability of a receivable becomes questionable, an allowance for doubtful accounts is established. 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 \$174,695 at December 31, 2017.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

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.

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 includes roads, gated entry ways, landscaping, ponds, water features, playground, pool, clubhouse, restroom, track, and the stormwater management system.

Property and equipment acquired by the Association is capitalized at cost and depreciated over its estimated useful lives 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Date of Management's Review

In preparing the financial statements, the Association's management has evaluated subsequent events and transactions for potential recognition or disclosure through December 5, 2019, which is the date the financial statements were available to be issued.

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 2017 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 \$260. Members of Estates at Craig Ranch were assessed an additional monthly assessment ranging from \$130 to \$160. Members of Hemingway at Craig Ranch were assessed an additional monthly assessment of \$150. Members of Chateau's of the Settlement at Craig Ranch were assessed an additional monthly assessment of \$205. 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 monthly assessment of \$35. Members of Watters Branch at Craig Ranch were assessed an additional monthly assessment of \$68.

Regular assessments for the year ended December 31, 2017 totaled \$3,166,525, of which \$326,529 was allocated to the Replacement Fund.

NOTE 4: 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 2017.

NOTE 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

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 funding amount of \$326,529, which is based on a full funding plan, was included in the 2017 budgets for all service areas, except for Southern Hills at Craig Ranch, which was not funded in accordance with the reserve study and instead funded with initial reserve assessments. The Association collected \$52,577 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 5: INCOME TAX

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, 2017, the Association had no income tax expense.

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 6: 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 7: PROPERTY AND EQUIPMENT

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

| December 31, | 2017 |
|-------------------------------|---------------|
| Office leasehold improvements | \$ 296,460 |
| Furniture and equipment | 5,266 |
| Total property and equipment | 301,726 |
| Less accumulated depreciation | (163,017) |
| Property and equipment, net | \$ 138,709 |

NOTE 8: INSURANCE FINANCE AGREEMENTS

The Association has obtained a short-term note payable with financial institutions to finance its annual insurance policy premiums. The note is payable in monthly installments of \$11,187, bears interest at a rate of 5.45%, and matured on April 2018. The balance of the note at December 31, 2017 totaled \$33,561.

NOTE 9: 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, 2017, the Association assessed capital contributions of \$46,585 and \$52,577 in the Operating and Replacement Funds, respectively.

NOTE 10: 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, 2017, the Association assessed enhancement fees of \$768,208 and incurred expenses of \$293,090 which is reported in the Enhancement Fund on the accompanying Statement of Revenues, Expenses and Changes in Fund Balance. Accumulated enhancement fees are included in Enhancement Fund balance on the accompanying Balance Sheet.

NOTE 11: DEVELOPER AND PARCEL DEVELOPER FUNDING

The Charter states that the declarant control period will terminate on the earlier of 1) within 120 days after the declarant closes the sale of 75% of the maximum number of units that may be created, 2) December 31, 2034, or 3) upon termination by the declarant. The Association's Board of Directors has been operating under the declarant control since inception. On June 6, 2018, the Board officially transitioned from Developer control to owner control.

According to the Charter, the Developer can choose, instead of assessments, to pay any shortfall under the operating budget, excluding bad debt, and any budgeted contributions to reserves. In December 2017, the Association amended its charter to effectively allow the Developer to exclude the budgeted reserves contribution from the calculation. This has been applied retroactively to 2017.

For the year ended December 31, 2017, and since inception, the Developer chose to fund the deficit versus electing to pay assessment fees on the Developer's unsold lots. For the year ended December 31, 2017, developer funding was not necessary to fund the deficit of the Association, since Association revenue exceeded operating expenses (excluding service areas).

In addition, 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, 2017, the operations of certain service areas were funded by parcel developers. Parcel developer funding totaled \$83,681 for 2017, of which \$30,981 was reported as Due from parcel developer on the accompanying Balance Sheet.

NOTE 12: INTERFUND BALANCES

As of December 31, 2017, the Operating Fund owes \$171,645 to the Replacement Fund, primarily due to insurance proceeds deposited in the Operating Fund and recognized in the Replacement Fund in 2015. In addition, as of December 31, 2017, the Enhancement Fund owes \$119,482 to the Operating Fund, primarily due to enhancement expenses being paid from the Operating Fund in 2015 and 2016. These interfund balances are reported on the accompanying Balance Sheet.

NOTE 13: HAIL DAMAGE SETTLEMENT AND REPAIRS

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 is reported as Settlement receivable and Settlement income on the accompanying Balance Sheet and Statement of Revenues, Expenses and Changes in Fund Balance, respectively.

NOTE 13: HAIL DAMAGE SETTLEMENT AND REPAIRS (Continued)

In addition, the Association accrued the estimated cost to repair of approximately \$1.5 million, which is reported as Accrued hail damage repairs and Hail damage repairs on the accompanying Balance Sheet and Statement of Revenues, Expenses and Changes in Fund Balance, respectively. The hail damage repairs for Settlement Townhomes were completed in 2019.

NOTE 14: SUBSEQUENT EVENTS

In December 2018, the Association paid the Developer approximately \$51,000 as reimbursement for escrow funds related to an agreement with the Developer and other entities for the purpose of making improvements to certain lands adjacent to the Association.

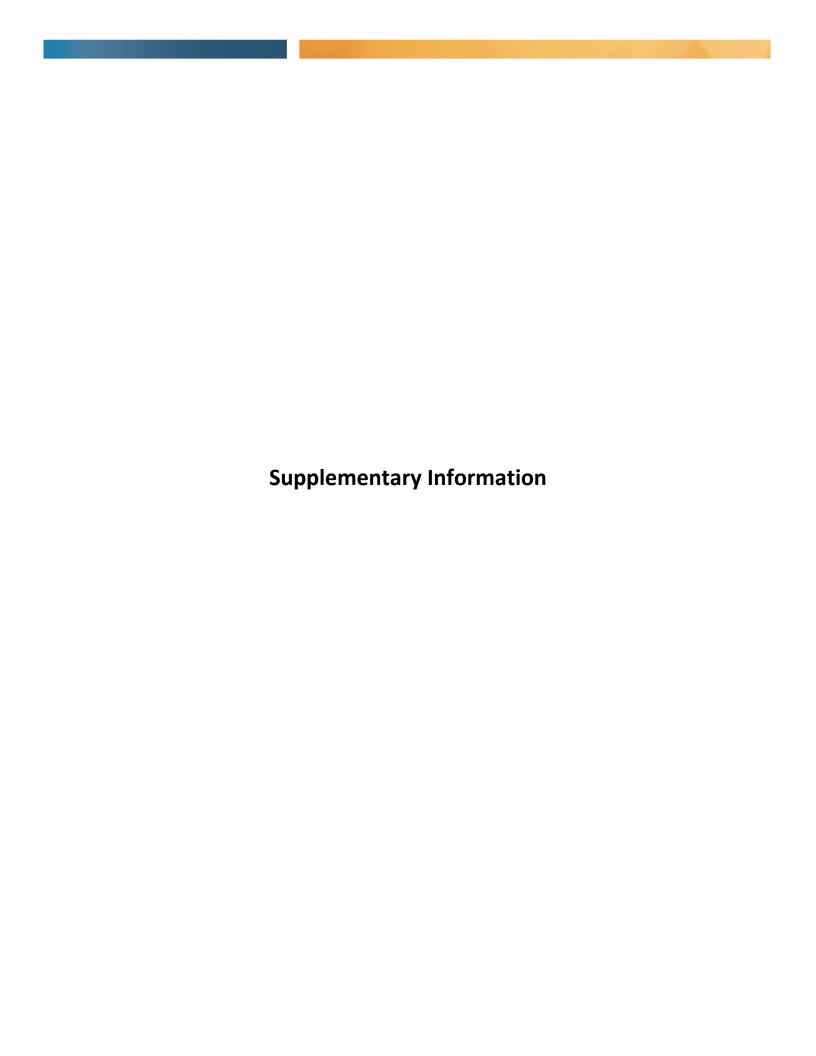
In January 2019, the Association entered into a contract for the construction of the amenity center for a fee of approximately \$2.1 million. The total cost of the project is expected to approximate \$2.3 million. The Association expects the project to be completed in 2020.

In February 2019, the Association approved the replacement of Riverwalk Park playground equipment, within the Craig Ranch North neighborhood, for a cost not to exceed \$160,000.

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 a hail damage event in March 2019. The assessment had a due date of September 1, 2019, and the individual owner assessment was \$3,998 per unit. The final claim totaled approximately \$5.7 million. In August 2019, the Association received insurance proceeds of approximately \$4.3 million, which 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 Association expects the hail damage repairs project to be completed in 2019.

In August 2019, the Association also accepted an insurance claim for the Spicewood, Trails, Watters Branch, and The Grove service areas totaling \$79,759, with an additional \$9,538 available in recoverable depreciation.

In October 2019, the Association levied a special assessment for the Settlement Townhomes service area to fund the deficit between the settlement (disclosed in Note 13) and the cost of the roof repairs and litigation expenses. The assessment amount is \$12,500 per townhome, for a total special assessment of \$250,000, due on or before December 31, 2019.



Craig Ranch Community Association, Inc. Schedule of Changes in Replacement Fund Balance

Year ended December 31, 2017

| Year ended December 31, | | Revenues | | | | | | | |
|--|----|-----------------------|---|------------|----|-------------|-------------------|--|--|
| Component | | Beginning and Capital | | | | | | | |
| | | Balance | | tributions | | Expenses | Ending Balance | | |
| Master | | | | | | · | | | |
| Pooled items: | | | | | | | | | |
| Office equipment | | | | | \$ | (2,550) | | | |
| Community elements | | | | | ڔ | (14,549) | | | |
| Crossroads park | | | | | | (3,017) | | | |
| Reserve study | | | | | | (2,850) | | | |
| Total pooled | \$ | 358,803 | Ś | 44,100 | | (22,966) \$ | 379,937 | | |
| | Y | 330,003 | Ÿ | 11,100 | | (22)300) \$ | 373,337 | | |
| Chateau's of the Settlement at Craig Ranch | | | | | | | | | |
| Pooled items: | | | | | | (7,000) | | | |
| Exterior building elements | | | | | | (7,988) | | | |
| Reserve study | | 70.260 | | 14 700 | | (2,350) | 02 720 | | |
| Total pooled | | 78,369 | | 14,708 | | (10,338) | 82,739 | | |
| Estates at Craig Ranch | | | | | | | | | |
| Nonpooled items: | | | | | | | | | |
| Streets | | 40,537 | | 27,010 | | - | 67,547 | | |
| Pooled items: | | | | | | | | | |
| Access control and perimeter elements | | | | | | (30,879) | | | |
| Pond elements | | | | | | (42,921) | | | |
| Street systems | | | | | | (854) | | | |
| Reserve study | | | | | | (2,650) | | | |
| Total pooled | | 186,412 | | 52,999 | | (77,304) | 162,107 | | |
| The Grove at Craig Ranch | | | | | | | | | |
| Total pooled | | - | | 7,607 | | - | 7,607 | | |
| Hemingway at Craig Ranch | | | | | | | | | |
| Pooled items: | | | | | | | | | |
| Exterior building elements | | | | | | (5,395) | | | |
| Pool elements | | | | | | (13,644) | | | |
| Property site elements | | | | | | (6,040) | | | |
| Pest control | | | | | | (8,800) * | | | |
| Reserve study | | | | | | (4,350) | | | |
| Total pooled | | 544,769 | | 142,197 | | (38,229) | 648,737 | | |
| • | | , - | | , | | | | | |
| | | | | | | | (continued) | | |

^{*} This component represents expenses that are not related to budgeted Replacement Fund components.

Craig Ranch Community Association, Inc. Schedule of Changes in Replacement Fund Balance (Continued)

| Year ended December 31, | 2017 | | | | | | |
|------------------------------|-----------|-----------|----|-------------|----------|----------------|-----------|
| | | | | _ | | | |
| | Beginning | | а | and Capital | | | Ending |
| Component | | Balance | | ntributions | Expenses | | Balance |
| Craig Ranch North | | | | | | | |
| Pooled items: | | | | | | | |
| Pool and pool house elements | | | | | \$ | (24,875) | |
| Property site elements | | | | | | (16,050) | |
| Reserve study | | | | | | (2,850) | |
| Total pooled | \$ | 278,247 | \$ | 48,934 | | (43,775) \$ | 283,406 |
| Settlement Townhomes | | | | | | | |
| Pooled items: | | | | | | | |
| Exterior building elements | | | | | | (1,569,077) | |
| Reserve study | | | | | | (2,150) | |
| Total pooled | | 109,299 | | 1,515,728 | | (1,571,227) | 53,800 |
| Southern Hills | | | | | | | |
| Pooled items: | | | | | | | |
| Reserve study | | | | | | (1,900) | |
| Total pooled | | 1 | | 142 | | (1,900) | (1,757) |
| Trails | | | | | | | |
| Total pooled | | 6,301 | | 10,552 | | - | 16,853 |
| Watters Branch | | | | | | | |
| Total pooled | | - | | 21,376 | | - | 21,376 |
| Total | \$ | 1,602,738 | \$ | 1,885,353 | \$ | (1,765,739) \$ | 1,722,352 |

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

Year ended December 31, 2017 Variance -**Favorable Budget** (Unfavorable) Actual (Unaudited) (Unaudited) **Revenues** \$ Regular assessments \$ 2,839,996 2,703,771 136,225 83,681 221,115 (137,434)Parcel developer funding Interest income 3,851 7,348 (3,497)Other income 162,657 168,039 (5,382)Settlement income 3,090,185 3,100,273 Total revenues (10,088)**Expenses** 727,757 Administrative 738,442 10,685 Bad debt provision 42,122 28,752 (13,370)Courtesy patrol 33,600 33,600 Depreciation 29,648 (29,648)324,697 377,169 52,472 Insurance Maintenance and repairs 1,357,369 1,366,843 9,474 Utilities 545,323 569,704 24,381 **Total expenses** 3,026,916 3,114,510 87,594 Excess (deficit) of revenues over expenses \$ 63,269 \$ (14,237)\$ 77,506 Beginning fund balance 839,764 839,764 **Capital contributions:** From non-developer owners 46,585 8,855 37,730 Ending fund balance (deficit) \$ 949,618 \$ (5,382) * \$955,000

^{*} Deficit is 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 2017 for the master and the sub-associations:

| | Estimated Remaining | stimated placement | Replacement Fund Balance |
|--|------------------------|-----------------------|--------------------------------|
| Component | Useful Life | Cost | 12/31/17 |
| Master | | | |
| Pooled items: | | | |
| Community elements | 10 - 30+ | \$ 111,000 | |
| Crossroads park | 2 - 30+ | 222,523 | |
| Dog park | 1 - 24 | 83,720 | |
| Dr. Cooper Park | 0 - 12 | 387,830 | |
| Total pooled items | | 805,073 | \$ 379,937 |
| Chateau's of the Settlement at Craig Ranch Pooled items: | | | |
| Exterior building elements | 1 - 21 | 522,455 | |
| Property site elements | 0 - 30+ | 119,418 | |
| Total pooled items | | 641,873 | 82,739 |
| Estates at Craig Ranch Nonpooled items: | | | |
| Streets | 0 - 30+ | 99,800 | 67,547 |
| Pooled items: | | | |
| Access control and perimeter elements | 0 - 27 | 609,995 | |
| Pond elements | 3 - 30+ | 312,788 | |
| Total pooled items | | 922,783 | 162,107 |
| The Grove at Craig Ranch - No study performed. | | | 7,607 |
| Hemingway at Craig Ranch | | | |
| Pooled items: | | | |
| Clubhouse elements | 2 - 22 | 178,800 | |
| Exterior building elements | 0 - 17 | 719,771 | |
| Pool elements | 0 - 18 | 170,400 | |
| Property site elements | 0 - 30+ | 679,075 | , |
| Total pooled items | | 1,748,046 | 648,737 |
| | | | (continued) |

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

| Component | Estimated Remaining Useful Life | Estimated placement Cost | Fund Balance 12/31/17 |
|--------------------------------------|---------------------------------------|--------------------------------|-----------------------------|
| Craig Ranch North | | | |
| Pooled items: | | | |
| Pool and pool house elements | 0 - 21 | \$ 577,112 | |
| Property site elements | 1 - 30+ | 354,490 | |
| Total pooled items | | 931,602 | \$ 283,406 |
| Settlement Townhomes | | | |
| Pooled items: | | | |
| Exterior building elements | 1 - 21 | 151,949 | |
| Property site elements | 8 - 30+ | 11,981 | |
| Total pooled items | | 163,930 | 53,800 |
| Southern Hills | | | |
| Pooled items: | | | |
| Fences and trellis | 3 - 8 | 58,466 | |
| Guard house | 3 | 2,000 | |
| Irrigation system | 3 | 10,600 | |
| Landscaping | 1 | 10,000 | |
| Lighting, monument | 18 | 8,640 | |
| Picnic table | 18 | 9,900 | |
| Recreation equipment | 18 | 63,000 | |
| Tower sign | 18 | 2,400 | |
| Total pooled items | | 165,006 | (1,757) |
| Trails - No study performed. | n/a | n/a | 16,853 |
| Watters Branch - No study performed. | n/a | n/a | 21,376 |
| Total | | \$ 5,378,313 | \$ 1,722,352 |