

FALL CREEK

FALL CREEK HOMEOWNERS ASSOCIATION, INC.

*FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED
DECEMBER 31, 2017*

FALL CREEK

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Fall Creek Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Fall Creek Homeowners Association, Inc., and Fall Creek Community Services Foundation, Inc. which comprise the combined balance sheet as of December 31, 2017, and the related combined statement 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.

Auditor's 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 association'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 association'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 combined financial statements referred to above present fairly, in all material respects, the financial position of the Fall Creek Homeowners Association, Inc. and Fall Creek Community Services Foundation, Inc. as of December 31, 2017 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report 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 on page 16 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.



Armstrong, Vaughan & Associates, P.C.

August 17, 2018

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED BALANCE SHEET
 DECEMBER 31, 2017

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,966,932	\$ 1,348,140	\$ 57,467	\$ 58,432
Accounts Receivable - Members	226,564	-	-	-
Allowance for Uncollectible Accounts	(76,452)	-	-	-
Other Receivables	16,389	-	-	-
Interfund Balances	(444,140)	78,204	115,662	62,065
Prepaid Insurance	9,506	-	-	-
	<u>\$ 1,698,799</u>	<u>\$ 1,426,344</u>	<u>\$ 173,129</u>	<u>\$ 120,497</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCE				
<i>Liabilities:</i>				
Accounts Payable	\$ 59,729	\$ -	\$ -	\$ -
ARC Deposits	36,408	-	-	-
Foundation Enhancement Fees Payable	48,442	-	-	-
Federal Income Tax Payable	11,293	-	-	-
Prepaid Assessments	785,554	-	-	-
Spectrum Collections	17,988	-	-	-
<i>Total Liabilities</i>	<u>959,414</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund Balance</i>	<u>739,385</u>	<u>1,426,344</u>	<u>173,129</u>	<u>120,497</u>
	<u>\$ 1,698,799</u>	<u>\$ 1,426,344</u>	<u>\$ 173,129</u>	<u>\$ 120,497</u>
TOTAL LIABILITIES AND FUND BALANCE				

The accompanying notes are an integral part of these statements.

Serrano Creek					
<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>HOA Totals</u>	<u>Foundation</u>	<u>Elimination Column</u>	<u>Combined Totals</u>
\$ 46,010	\$ 25,193	\$ 3,502,174	\$ 618,448	\$ -	\$ 4,120,622
-	-	226,564	-	-	226,564
-	-	(76,452)	-	-	(76,452)
-	-	16,389	48,442	(48,442)	16,389
173,759	14,450	-	-	-	-
-	-	9,506	-	-	9,506
<u>\$ 219,769</u>	<u>\$ 39,643</u>	<u>\$ 3,678,181</u>	<u>\$ 666,890</u>	<u>\$ (48,442)</u>	<u>\$ 4,296,629</u>
\$ -	\$ -	\$ 59,729	\$ -	\$ -	\$ 59,729
-	-	36,408	-	-	36,408
-	-	48,442	-	(48,442)	-
-	-	11,293	-	-	11,293
-	-	785,554	-	-	785,554
-	-	17,988	-	-	17,988
-	-	959,414	-	(48,442)	910,972
<u>219,769</u>	<u>39,643</u>	<u>2,718,767</u>	<u>666,890</u>	<u>-</u>	<u>3,385,657</u>
<u>\$ 219,769</u>	<u>\$ 39,643</u>	<u>\$ 3,678,181</u>	<u>\$ 666,890</u>	<u>\$ (48,442)</u>	<u>\$ 4,296,629</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
REVENUES				
Member Assessments	\$ 2,219,689	\$ 114,225	\$ 75,000	\$ 18,800
Builder Assessments	75,695	-	-	-
Foundation Fees	-	-	-	-
Working Capital Fees	38,000	-	-	-
Joint Security Agreement	335,755	-	-	-
Joint Maintenance Agreement	274,639	-	-	-
Late Fees	49,032	-	-	-
Easement Income	38,000	-	-	-
Other Income	8,621	-	136	-
Tennis Income	4,591	-	-	-
Gate and Amenity Access Income	1,489	-	50	-
Interest Income	2,310	8,741	-	238
TOTAL REVENUES	<u>3,047,821</u>	<u>122,966</u>	<u>75,186</u>	<u>19,038</u>
EXPENSES				
<i>Administrative Expenses:</i>				
Management Fees	238,341	-	-	-
Insurance	152,562	-	-	-
Other Administrative	87,911	-	-	-
Legal and Accounting Fees	70,274	-	-	-
Community Events	62,254	-	-	-
Recreation Center Administration	29,256	-	-	-
Taxes	24,005	-	-	-
Bad Debt Expense	18,627	-	-	-
<i>Total Administrative Expenses</i>	<u>683,230</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Contract Services:</i>				
Landscaping	760,798	-	-	-
Security Services	514,181	-	-	-
Pool Service	178,837	-	-	-
Lake Maintenance	28,354	-	19,076	-
Cleaning	13,987	-	-	-
<i>Total Contract Services</i>	<u>\$ 1,496,157</u>	<u>\$ -</u>	<u>\$ 19,076</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Serrano Creek					
Operating Fund	Replacement Fund	HOA Totals	Foundation	Elimination Column	Combined Totals
\$ 45,670	\$ 5,530	\$ 2,478,914	\$ -	\$ -	\$ 2,478,914
-	-	75,695	-	-	75,695
-	-	-	171,817	-	171,817
-	-	38,000	-	-	38,000
-	-	335,755	-	-	335,755
-	-	274,639	-	-	274,639
-	-	49,032	-	-	49,032
-	-	38,000	-	-	38,000
-	-	8,757	-	-	8,757
-	-	4,591	-	-	4,591
50	-	1,589	-	-	1,589
-	102	11,391	352	-	11,743
<u>45,720</u>	<u>5,632</u>	<u>3,316,363</u>	<u>172,169</u>	<u>-</u>	<u>3,488,532</u>
-	-	238,341	-	-	238,341
-	-	152,562	-	-	152,562
-	-	87,911	-	-	87,911
-	-	70,274	350	-	70,624
-	-	62,254	-	-	62,254
-	-	29,256	-	-	29,256
-	-	24,005	-	-	24,005
-	-	18,627	-	-	18,627
<u>-</u>	<u>-</u>	<u>683,230</u>	<u>350</u>	<u>-</u>	<u>683,580</u>
-	-	760,798	-	-	760,798
-	-	514,181	-	-	514,181
-	-	178,837	-	-	178,837
10,379	-	57,809	-	-	57,809
-	-	13,987	-	-	13,987
<u>\$ 10,379</u>	<u>\$ -</u>	<u>\$ 1,525,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,525,612</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 (CONT.)
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
EXPENSES (CONT.)				
<i>Utilities:</i>				
Water	\$ 246,030	\$ -	\$ 5,716	\$ -
Electricity and Gas	182,169	-	-	-
Telephone and Cable	11,844	-	1,487	-
Garbage Removal	6,567	-	-	-
<i>Total Utilities</i>	446,610	-	7,203	-
<i>Repairs and Maintenance:</i>				
Landscaping & Improvements	234,232	-	-	-
Other Repairs	215,024	-	4,051	-
Pool Repairs	51,133	37,946	-	-
Amenity Center	40,889	-	-	-
Decorating	29,943	-	-	-
Irrigation	26,538	-	-	-
Signage	21,808	-	290	-
Fence and Gate Repairs	1,490	-	10,709	-
Tennis Court Repairs	6,973	-	-	-
Amber Wood Landscaping	3,400	-	-	-
<i>Total Repairs and Maintenance</i>	631,430	37,946	15,050	-
TOTAL EXPENSES	3,257,427	37,946	41,329	-
 Excess (Deficiency) of Revenues Over (Under) Expenses	 (209,606)	 85,020	 33,857	 19,038
 BEGINNING FUND BALANCE	 948,991	 1,341,324	 139,272	 101,459
 ENDING FUND BALANCE	 \$ 739,385	 \$ 1,426,344	 \$ 173,129	 \$ 120,497

The accompanying notes are an integral part of these statements.

Serrano Creek		HOA		Elimination	Combined
Operating	Replacement	Totals	Foundation	Column	Totals
Fund	Fund				
\$ 13,258	\$ -	\$ 265,004	\$ -	\$ -	\$ 265,004
-	-	182,169	-	-	182,169
1,119	-	14,450	-	-	14,450
-	-	6,567	-	-	6,567
<u>14,377</u>	<u>-</u>	<u>468,190</u>	<u>-</u>	<u>-</u>	<u>468,190</u>
-	-	234,232	-	-	234,232
-	-	219,075	-	-	219,075
-	-	89,079	-	-	89,079
-	-	40,889	-	-	40,889
-	-	29,943	-	-	29,943
-	-	26,538	-	-	26,538
290	-	22,388	-	-	22,388
10,089	-	22,288	-	-	22,288
-	-	6,973	-	-	6,973
-	-	3,400	-	-	3,400
<u>10,379</u>	<u>-</u>	<u>694,805</u>	<u>-</u>	<u>-</u>	<u>694,805</u>
<u>35,135</u>	<u>-</u>	<u>3,371,837</u>	<u>350</u>	<u>-</u>	<u>3,372,187</u>
10,585	5,632	(55,474)	171,819	-	116,345
<u>209,184</u>	<u>34,011</u>	<u>2,774,241</u>	<u>495,071</u>	<u>-</u>	<u>3,269,312</u>
<u>\$ 219,769</u>	<u>\$ 39,643</u>	<u>\$ 2,718,767</u>	<u>\$ 666,890</u>	<u>\$ -</u>	<u>\$ 3,385,657</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficiency) of Revenues				
Over (Under) Expenses	\$ (209,606)	\$ 85,020	\$ 33,857	\$ 19,038
Adjustments to Reconcile Excess (Deficiency) of Revenues Over (Under) Expenses to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in:				
Accounts Receivable (Net)	(62,071)	-	-	-
Other Receivables	(13,610)	-	-	-
Prepaid Insurance	17,048	-	-	-
Prepaid Security Services	19,816	-	-	-
Increase (Decrease) in:				
Accounts Payable	(71,320)	-	-	-
ARC Deposits	1,700	-	-	-
Foundation Enhancement Fees Payable	47,754	-	-	-
Deferred Joint Security Agreement	(27,980)	-	-	-
Federal Income Tax Payable	11,293	-	-	-
Prepaid Assessments	99,118	-	-	-
Spectrum Collections	17,988	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(169,870)	85,020	33,857	19,038
CASH FLOWS FROM FINANCING ACTIVITIES				
Interfund Advances (Repayments)	375,863	(76,312)	(97,277)	(18,777)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	375,863	(76,312)	(97,277)	(18,777)
NET INCREASE (DECREASE) IN CASH	205,993	8,708	(63,420)	261
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,760,939	1,339,432	120,887	58,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,966,932	\$ 1,348,140	\$ 57,467	\$ 58,432
SUPPLEMENTAL DISCLOSURE:				
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these statements.

Serrano Creek		HOA		Elimination	Combined
Operating	Replacement	Totals	Foundation	Column	Totals
Fund	Fund				
\$ 10,585	\$ 5,632	\$ (55,474)	\$ 171,819	\$ -	\$ 116,345
-	-	(62,071)	-	-	(62,071)
-	-	(13,610)	(48,442)	-	(62,052)
-	-	17,048	-	-	17,048
-	-	19,816	-	-	19,816
-	-	(71,320)	-	-	(71,320)
-	-	1,700	-	-	1,700
-	-	47,754	-	-	47,754
-	-	(27,980)	-	-	(27,980)
-	-	11,293	-	-	11,293
-	-	99,118	-	-	99,118
-	-	17,988	-	-	17,988
<u>10,585</u>	<u>5,632</u>	<u>(15,738)</u>	<u>123,377</u>	<u>-</u>	<u>107,639</u>
<u>(177,978)</u>	<u>(5,519)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(177,978)</u>	<u>(5,519)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(167,393)	113	(15,738)	123,377	-	107,639
<u>213,403</u>	<u>25,080</u>	<u>3,517,912</u>	<u>495,071</u>	<u>-</u>	<u>4,012,983</u>
<u>\$ 46,010</u>	<u>\$ 25,193</u>	<u>\$ 3,502,174</u>	<u>\$ 618,448</u>	<u>\$ -</u>	<u>\$ 4,120,622</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1 -- NATURE OF ORGANIZATION

Fall Creek Homeowners Association, Inc. (the "Association") was incorporated in May 2001 to provide maintenance and preservation of the common areas located in Harris County, Texas. The master planned community consists of 2,300 acres and is still under development. At the end of 2017, the Association consisted of 2,516 residential and builder lots.

The Foundation, (Fall Creek Community Services), established in 2001, maintains transfer fees paid by each purchaser at the sale of any residential lot except exempt transfers. The Association's Board shall determine the amount of the transfer fee; provided, however the fee shall not be greater than 0.25% of the gross selling price of the applicable property. These fees are to be used as deemed beneficial to the general good and welfare of the community, as permitted by the governing documents of the Foundation, including, without limitation, the enhancement and/or improvement of infrastructure within the community. The Association's Board currently serves as the Board of the Foundation.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHOD/FUND ACCOUNTING

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

To ensure observance of limitations and restrictions on use of financial resources, financial resources are classified for accounting and reporting purposes in the following sections and funds established according to their nature and purpose:

Sections:

Homeowners Association – This section is used to account for the operating and replacement activities of the Association, except for those exclusive to specific gated neighborhoods.

Fairway Crossing – This section is used to account for the operating and replacement activities exclusive to Fairway Crossing, a gated neighborhood within the Association.

Serrano Creek – This section is used to account for the operating and replacement activities exclusive to Serrano Creek, a gated neighborhood within the Association.

Funds:

Operating Fund – This fund is used to account for financial resources available for general operations.

Replacement Fund – This fund is used to accumulate financial resources designated for major repairs and replacement.

B. FISCAL YEAR

The Association has a fiscal year beginning on January 1 and ending on December 31.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the statement of cash flows include amounts in checking accounts, money market accounts, and certificates of deposit with original maturities of three months or less.

D. MEMBER ASSESSMENTS

Association membership consists of homeowner members and developer/builder members. Assessments are due annually. Fairway Crossing at Fall Creek and Serrano Creek at Fall Creek have an additional assessment for expenses exclusive to their areas. Anytime a lot is sold, a one-time capital improvement assessment is charged to the new owner at fifty percent of the annual assessment. In addition, a foundation fee no greater than 0.25% of the gross selling of the property is charged to new homeowners. The Association will retain legal counsel and place liens on properties delinquent for more than 90 days. The Association's policy for charging off uncollectible receivables is determined on a case by case basis. The Association vigorously pursues collection of receivables until ownership has changed through sale or foreclosure and the Association may no longer pursue collection of the previous owner.

An allowance for uncollectible accounts has been established as of December 31, 2017 in the amount of \$76,452 based on management's estimate.

Revenue from assessments is recognized in the period of assessment. Payments received in advance of the period of assessment are deferred and carried on the balance sheet as prepaid assessment.

E. PROPERTY, EQUIPMENT AND DEPRECIATION

In accordance with industry standards, real property and common areas donated by the developer are not capitalized on the Association's financial statements unless the Association can dispose of the property, at the discretion of its board, for cash or the property is used by the Association to generate significant cash flows from members on the basis of usage. Common property consists of but is not limited to sidewalks, parking areas, perimeter walls, ponds/lakes, playgrounds, tennis courts, signage, clubhouse, pool house, pools, and pool restrooms. Personal property over \$10,000 purchased with Association funds, to which the Association holds title, will be capitalized at cost and depreciated over their estimated useful lives using the straight-line method of depreciation.

F. ARC DEPOSITS/REVIEW FEES

New construction projects by homeowners are reviewed by the Architectural Review Committee (ARC). New homes and major renovations incur a review fee. Upon approval of a construction project by the ARC, homeowners are required to pay a deposit which is refunded when the project is complete. Deposits vary depending on the project undertaken by the homeowner.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. SUBSEQUENT EVENTS

Subsequent events were evaluated through August 17, 2018, which is the date the financial statements were available to be issued.

NOTE 3 -- INTERFUND BALANCES

During the normal course of operations, transactions occur between funds resulting in amounts owed between funds. These amounts are recorded as interfund receivables and payables on the balance sheet.

NOTE 4 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association contracted with Reserve Advisors, Inc. in 2015 to conduct a study to estimate the remaining useful lives and the replacement costs of the common areas components. The tables included in the required supplementary information are based on this study.

The Replacement Fund can be funded by regular and special assessments. Capital improvement fees collected may also be designated for reserve funding. Accumulated funds are in separate money market accounts and certificates of deposit and are generally not available for expenditures for normal operations.

In 2017, the Association increased the replacement funds by \$147,638 and spent \$37,946 on major repairs and replacements, leaving balances totaling \$1,586,484. Because funding is based on estimates, actual needs may vary significantly from the study. Monies accumulated in the replacement fund may not be adequate to meet all future needs for major replacements. Thus, the Board has the right to raise regular assessments or levy a special assessment to meet these needs.

NOTE 5 -- JOINT SECURITY AGREEMENT

By agreement, Harris County WCID 96 contributed \$335,755 during the year, for security services provided by the Harris County Sheriff's Department that benefit both parties.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2017

NOTE 6 -- UNINSURED DEPOSITS

As of December 31, 2017, deposits exceeded the coverage provided by the Federal Deposit Insurance Corporation (FDIC) by \$3,135,883 for the Association and by \$281,485 for the Foundation.

NOTE 7 -- JOINT MAINTENANCE AGREEMENT

In March 2012, the Association entered into a joint maintenance agreement with Fall Creek Commercial Property Owners Association, Inc. The Association holds the master contracts and pays for all landscaping for common areas and the operation of all street lights located in Fall Creek. The POA pays the Association its pro-rata share (30%) of the landscaping and street light electricity costs. The agreement can be terminated by either party upon 30 days written notice to the other party.

NOTE 8 -- INCOME TAXES

The Association and Foundation qualify as tax-exempt associations for all income and expenses related to their exempt function purpose of the acquisition, construction, management, maintenance, and care of Association property. The net non-exempt income from earned interest and nonmember fees is taxed at 15% or 30% by the federal government, dependent upon certain filing elections made. The Association and Foundation filed IRS Forms 1120-H resulting in a tax expense of \$11,293 for 2017 for the Association and \$0 for the Foundation.

Accounting principles generally accepted in the United States of America require the Association management to evaluate tax positions taken by the Association and Foundation and recognize a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition as a liability (or asset) or disclosure in the financial statements. The Association is subject to routine examinations by taxing authorities; however, there are currently no examinations for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

NOTE 9 -- LITIGATION

Management is not aware of any pending or threatened litigation against the Association that would have any material impact on the financial statements.

NOTE 10 -- SUBSEQUENT EVENTS

Subsequent to year end, the Association contracted with Sweetwater Pools, Inc. for pool plastering and resurfacing in the amount of \$145,144.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2017
 (UNAUDITED)

Reserve Advisors, Inc. performed a reserve study in 2015 using a database of current construction costs and material lives from authoritative literature, to estimate the remaining useful lives and the replacement costs of the components of common property. Estimated current replacement costs were computed using current inflation rates to the time of replacement. The estimates are based on the reserve study and may vary significantly from actual costs. The following are tables based on the study and presents significant information about the components of common property.

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/17
Fall Creek Homeowners Association			
<i>General Property:</i>			
Concrete Parking Areas & Sidewalks	3-7	\$ 82,453	\$ 82,453
Fencing	18	37,800	37,800
Irrigation System	23	170,000	57,727
Parking Area Lighting & Signage	6-11	94,000	94,000
Perimeter Walls	6-8	297,400	57,727
Playground Equipment	4	60,000	60,000
Ponds	6-9	44,000	44,000
Tennis Courts	0-24	374,040	374,040
<i>Clubhouse:</i>			
Building Services Equipment	1	12,000	12,000
Interior Renovation	3-11	133,200	133,200
Roof	4-15	48,000	48,000
Wall Finish	0	11,400	11,400
Windows & Doors	23	45,000	45,000
<i>North Pool:</i>			
Decking	0	34,020	34,020
Furniture	2	29,000	29,000
Mechanical Equipment	0	15,500	15,500
Pool Finish	5	75,320	75,320
Rest Rooms	6	20,000	20,000
Shade Structures	6	25,000	25,000
Water Features	4	95,000	95,000
Water Slides	10	280,000	15,307
<i>South Pool:</i>			
Decking	0	11,460	11,460
Mechanical Equipment	0	10,000	10,000
Pool Finish	4	24,990	24,990
Rest Rooms	10	10,000	10,000
<i>Other:</i>			
Reserve Study Update	0	3,400	3,400
		<u>\$ 2,042,983</u>	<u>\$ 1,426,344</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONT.)
 DECEMBER 31, 2017
 (UNAUDITED)

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/17
Fairway Crossing			
Concrete Streets	11	\$ 56,000	\$ 56,000
Gates & Operators	0-10	26,000	26,000
Pond	3-20	64,000	38,497
		<u>\$ 146,000</u>	<u>\$ 120,497</u>

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/17
Serrano Creek			
Concrete Streets	7	\$ 79,200	\$ 10,000
Gates & Operators	0-9	26,000	19,643
Pond	3-5	27,250	10,000
		<u>\$ 132,450</u>	<u>\$ 39,643</u>

	Association	Fairway	Serrano
Reserve Study Anticipated Balance at Year End	<u>\$ 619,949</u>	<u>\$ 40,022</u>	<u>\$ 112,392</u>
Percent of Anticipated Balance on Hand at Year End	230.1%	301.1%	35.3%

Reserve Study Recommended Contributions (Based on Original Projections)

	Association	Fairway	Serrano
2018	\$ 196,000	\$ 19,400	\$ 26,300
2019	\$ 228,000	\$ 20,000	\$ 27,100
2020	\$ 292,000	\$ 20,600	\$ 28,000