

FALL CREEK

FALL CREEK HOMEOWNERS ASSOCIATION, INC.

*FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED
DECEMBER 31, 2019*

FALL CREEK

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT 1

COMBINED BALANCE SHEET 3

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE.... 5

COMBINED STATEMENT OF CASH FLOWS 9

NOTES TO FINANCIAL STATEMENTS 13

REQUIRED SUPPLEMENTARY INFORMATION..... 18

 FUTURE MAJOR REPAIRS AND REPLACEMENTS 19



Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

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, 2019, 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

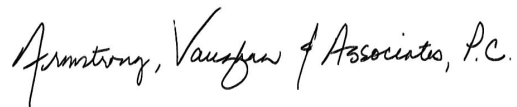
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fall Creek Homeowners Association, Inc. and Fall Creek Community Services Foundation, Inc. as of December 31, 2019 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, Fall Creek Homeowners Association, Inc. and Fall Creek Community Services Foundation, Inc. adopted ASU 2014-9 related to revenue recognition as of January 1, 2019. Our opinion is not modified with respect to this matter.

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 pages 19 and 20 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.

September 28, 2020

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED BALANCE SHEET
 DECEMBER 31, 2019

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,095,751	\$ 617,357	\$ 147,541	\$ 77,587
Certificates of Deposit	-	1,119,124	-	35,067
Accounts Receivable - Members	256,386	-	-	-
Allowance for Uncollectible Accounts	(102,555)	-	-	-
Other Receivables	12,525	-	-	-
Interfund Balances	(267,568)	128,454	62,281	49,453
Prepaid Insurance	4,768	-	-	-
Other Prepaid Expenses	34,583	-	-	-
	\$ 1,033,890	\$ 1,864,935	\$ 209,822	\$ 162,107
LIABILITIES AND FUND BALANCE				
<i>Liabilities:</i>				
Accounts Payable	\$ 42,684	\$ -	\$ -	\$ -
ARC Deposits	40,408	-	-	-
Clubhouse Rental Deposits	500	-	-	-
Foundation Enhancement Fees Payable	90,391	-	-	-
Federal Income Tax Payable	3,412	-	-	-
Prepaid Assessments	1,132,873	-	-	-
Spectrum Collections	39,514	-	-	-
<i>Total Liabilities</i>	1,349,782	-	-	-
<i>Fund Balance (Deficit)</i>	(315,892)	1,864,935	209,822	162,107
	\$ 1,033,890	\$ 1,864,935	\$ 209,822	\$ 162,107

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>
\$ 69,890	\$ 97,523	\$ 2,105,649	\$ 765,417	\$ -	\$ 2,871,066
-	89,534	1,243,725	-	-	1,243,725
-	-	256,386	-	-	256,386
-	-	(102,555)	-	-	(102,555)
-	-	12,525	90,391	(90,391)	12,525
382	26,998	-	-	-	-
-	-	4,768	-	-	4,768
-	-	34,583	-	-	34,583
<u>\$ 70,272</u>	<u>\$ 214,055</u>	<u>\$ 3,555,081</u>	<u>\$ 855,808</u>	<u>\$ (90,391)</u>	<u>\$ 4,320,498</u>
\$ -	\$ -	\$ 42,684	\$ -	\$ -	\$ 42,684
-	-	40,408	-	-	40,408
-	-	500	-	-	500
-	-	90,391	-	(90,391)	-
-	-	3,412	-	-	3,412
-	-	1,132,873	-	-	1,132,873
-	-	39,514	-	-	39,514
-	-	1,349,782	-	(90,391)	1,259,391
<u>70,272</u>	<u>214,055</u>	<u>2,205,299</u>	<u>855,808</u>	<u>-</u>	<u>3,061,107</u>
<u>\$ 70,272</u>	<u>\$ 214,055</u>	<u>\$ 3,555,081</u>	<u>\$ 855,808</u>	<u>\$ (90,391)</u>	<u>\$ 4,320,498</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
REVENUES				
Member Assessments	\$ 2,477,009	\$ -	\$ 93,800	\$ -
Builder Assessments	17,883	-	-	-
Foundation Fees	-	-	-	-
Working Capital Fees	34,675	-	-	-
Joint Security Agreement	335,755	-	-	-
Joint Maintenance Agreement	363,815	-	-	-
Late Fees	51,238	-	-	-
Clubhouse Rental Fees	19,150	-	-	-
Tennis Income	17,025	-	-	-
Other Income	5,360	-	-	-
Gate and Amenity Access Income	4,055	-	-	-
Interest Income	-	21,624	-	563
TOTAL REVENUES	<u>3,325,965</u>	<u>21,624</u>	<u>93,800</u>	<u>563</u>
EXPENSES				
<i>Administrative Expenses:</i>				
Management Fees	168,399	-	-	-
Bad Debt Expense	143,300	-	-	-
Community Events	121,352	-	-	-
Other Administrative	120,387	-	-	-
Insurance	56,596	-	-	-
Legal and Accounting Fees	28,546	-	-	-
Tennis Coach Fees	6,310	-	-	-
Taxes	5,939	-	-	-
<i>Total Administrative Expenses</i>	<u>650,829</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Contract Services:</i>				
Landscaping	920,859	-	-	-
Security Services	384,864	-	-	-
Pool Service	202,679	-	-	-
Cleaning	21,252	-	-	-
Lake Maintenance	21,142	-	13,989	-
<i>Total Contract Services</i>	<u>\$ 1,550,796</u>	<u>\$ -</u>	<u>\$ 13,989</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
\$ 50,400	\$ -	\$ 2,621,209	\$ -	\$ -	\$ 2,621,209
-	-	17,883	-	-	17,883
-	-	-	148,306	-	148,306
-	-	34,675	-	-	34,675
-	-	335,755	-	-	335,755
-	-	363,815	-	-	363,815
-	-	51,238	-	-	51,238
-	-	19,150	-	-	19,150
-	-	17,025	-	-	17,025
-	-	5,360	-	-	5,360
-	-	4,055	-	-	4,055
-	1,910	24,097	301	-	24,398
<u>50,400</u>	<u>1,910</u>	<u>3,494,262</u>	<u>148,607</u>	<u>-</u>	<u>3,642,869</u>
-	-	168,399	-	-	168,399
-	-	143,300	-	-	143,300
-	-	121,352	-	-	121,352
-	-	120,387	1	-	120,388
-	-	56,596	-	-	56,596
-	-	28,546	350	-	28,896
-	-	6,310	-	-	6,310
-	-	5,939	-	-	5,939
<u>-</u>	<u>-</u>	<u>650,829</u>	<u>351</u>	<u>-</u>	<u>651,180</u>
-	-	920,859	-	-	920,859
-	-	384,864	-	-	384,864
-	-	202,679	-	-	202,679
-	-	21,252	-	-	21,252
14,612	-	49,743	-	-	49,743
<u>\$ 14,612</u>	<u>\$ -</u>	<u>\$ 1,579,397</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,579,397</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 (CONT.)
 FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Homeowners Association</u>		<u>Fairway Crossing</u>	
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
EXPENSES (CONT.)				
<i>Utilities:</i>				
Electricity and Gas	\$ 262,815	\$ -	\$ -	\$ -
Water	207,877	-	-	-
Telephone and Cable	15,873	-	157	-
Garbage Removal	4,559	-	-	-
<i>Total Utilities</i>	<u>491,124</u>	<u>-</u>	<u>157</u>	<u>-</u>
<i>Repairs and Maintenance:</i>				
Landscaping & Improvements	369,671	-	10,041	-
Other Repairs	180,547	48,034	4,094	-
Pool Repairs	115,925	89,759	-	-
Irrigation	69,923	25,932	-	-
Amenity Center	41,728	-	-	-
Decorating	41,652	-	-	-
Tennis Court Repairs	15,452	-	-	-
Fence and Gate Repairs	11,967	19,992	17,638	-
Signage	4,400	-	-	-
<i>Total Repairs and Maintenance</i>	<u>851,265</u>	<u>183,717</u>	<u>31,773</u>	<u>-</u>
TOTAL EXPENSES	<u>3,544,014</u>	<u>183,717</u>	<u>45,919</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	(218,049)	(162,093)	47,881	563
BEGINNING FUND BALANCE (DEFICIT)	(71,000)	2,000,185	178,941	144,544
Transfers Between Funds	<u>(26,843)</u>	<u>26,843</u>	<u>(17,000)</u>	<u>17,000</u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ (315,892)</u>	<u>\$ 1,864,935</u>	<u>\$ 209,822</u>	<u>\$ 162,107</u>

The accompanying notes are an integral part of these statements.

Serrano Creek		HOA		Elimination	Combined
Operating	Replacement	Totals	Foundation	Column	Totals
Fund	Fund				
\$ -	\$ -	\$ 262,815	\$ -	\$ -	\$ 262,815
-	-	207,877	-	-	207,877
-	-	16,030	-	-	16,030
-	-	4,559	-	-	4,559
-	-	491,281	-	-	491,281
6,965	-	386,677	-	-	386,677
5,027	-	237,702	-	-	237,702
-	-	205,684	-	-	205,684
1,714	-	97,569	-	-	97,569
-	-	41,728	-	-	41,728
-	-	41,652	-	-	41,652
-	-	15,452	-	-	15,452
7,081	-	56,678	-	-	56,678
-	-	4,400	-	-	4,400
20,787	-	1,087,542	-	-	1,087,542
35,399	-	3,809,049	351	-	3,809,400
15,001	1,910	(314,787)	148,256	-	(166,531)
81,571	185,845	2,520,086	707,552	-	3,227,638
(26,300)	26,300	-	-	-	-
\$ 70,272	\$ 214,055	\$ 2,205,299	\$ 855,808	\$ -	\$ 3,061,107

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficiency) of Revenues				
Over (Under) Expenses	\$ (218,049)	\$ (162,093)	\$ 47,881	\$ 563
Adjustments to Reconcile Excess (Deficiency) of Revenues Over (Under) Expenses to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in:				
Accounts Receivable (Net)	(29,829)	-	-	-
Other Receivables	(12,514)	-	-	-
Prepaid Insurance	5,360	-	-	-
Other Prepaid Expenses	(32,608)	-	-	-
Increase (Decrease) in:				
Accounts Payable	(19,652)	-	(5,000)	-
ARC Deposits	(400)	-	-	-
Clubhouse Rental Deposits	500	-	-	-
Foundation Enhancement Fees Payable	18,827	-	-	-
Federal Income Tax Payable	1,147	-	-	-
Prepaid Assessments	195,300	-	-	-
Spectrum Collections	15,510	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(76,408)	(162,093)	42,881	563
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in Certificates of Deposit	-	(118,732)	-	(35,067)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ -	\$ (118,732)	\$ -	\$ (35,067)

The accompanying notes are an integral part of these statements.

<u>Serrano Creek</u>		<u>HOA Totals</u>	<u>Foundation</u>	<u>Elimination Column</u>	<u>Combined Totals</u>
<u>Operating Fund</u>	<u>Replacement Fund</u>				
\$ 15,001	\$ 1,910	\$ (314,787)	\$ 148,256	\$ -	\$ (166,531)
-	-	(29,829)	-	-	(29,829)
-	-	(12,514)	(18,827)	18,827	(31,341)
-	-	5,360	-	-	5,360
-	-	(32,608)	-	-	(32,608)
-	-	(24,652)	-	-	(24,652)
-	-	(400)	-	-	(400)
-	-	500	-	-	500
-	-	18,827	-	(18,827)	18,827
-	-	1,147	-	-	1,147
-	-	195,300	-	-	195,300
-	-	15,510	-	-	15,510
<u>15,001</u>	<u>1,910</u>	<u>(178,146)</u>	<u>129,429</u>	<u>-</u>	<u>(48,717)</u>
-	(89,534)	(243,333)	-	-	(243,333)
<u>\$ -</u>	<u>\$ (89,534)</u>	<u>\$ (243,333)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (243,333)</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF CASH FLOWS (CONT.)
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
CASH FLOWS FROM FINANCING ACTIVITIES				
Transfers Between Funds	\$ (26,843)	\$ 26,843	\$ (17,000)	\$ 17,000
Interfund Advances (Repayments)	34,870	(128,454)	94,274	(49,453)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	8,027	(101,611)	77,274	(32,453)
 NET INCREASE (DECREASE) IN CASH	 (68,381)	 (382,436)	 120,155	 (66,957)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 1,164,132	 999,793	 27,386	 144,544
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,095,751	\$ 617,357	\$ 147,541	\$ 77,587
 SUPPLEMENTAL DISCLOSURE:				
Income Taxes Paid	\$ 4,000	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -	\$ -

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>
\$ (26,300)	\$ 26,300	\$ -	\$ -	\$ -	\$ -
75,761	(26,998)	-	-	-	-
49,461	(698)	-	-	-	-
64,462	(88,322)	(421,479)	129,429	-	(292,050)
5,428	185,845	2,527,128	635,988	-	3,163,116
<u>\$ 69,890</u>	<u>\$ 97,523</u>	<u>\$ 2,105,649</u>	<u>\$ 765,417</u>	<u>\$ -</u>	<u>\$ 2,871,066</u>
\$ -	\$ -	\$ 4,000	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019

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 2019, the Association consisted of 2,837 residential and builder lots. These financial statements have been prepared in accordance with generally accepted accounting principles.

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, that 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. FUND ACCOUNTING

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, 2019

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 working capital fee 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 for the Foundation. Assessment, joint security agreement, and joint maintenance agreement revenue is recognized as the related performance obligations are satisfied at transactions amounts expected to be collected. The Association's performance obligations related to its operating assessments and joint security/maintenance agreements are satisfied over the period of the assessment on a monthly pro-rata basis using the input method. The performance obligations related to replacement fund assessments for specific repairs are satisfied when these funds are expended for their designated purpose.

Assessments receivable at the balance sheet date are stated at the amounts expected to be collected from outstanding assessments from owners. The Association will retain legal counsel and place liens on properties delinquent for more than 90 days. An allowance for uncollectible accounts has been recorded as of December 31, 2019 in the amount of \$102,555 based on management's estimate. Because of the Association's collection history and legal standing to enforce payment, the Association considers the collection of assessments levied to be probable. The balances of assessments receivable as of the beginning and end of the year are \$206,672 and \$256,386, respectively. There were no contract assets related to joint security or maintenance agreements.

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, 2019

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

G. CONTRACT LIABILITIES

A contract liability is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to assessments. Contract liabilities include prepaid assessments (payments in advance towards future assessment levies). The balances of prepaid assessments as of the beginning and end of the year are \$937,573 and \$1,132,873, respectively. There were no contract liabilities related to joint security or maintenance agreements.

H. SPECTRUM COLLECTIONS

The Association's management company bills fees directly to delinquent homeowners for collection efforts. These fees are paid to Spectrum upon collection. Uncollected fees are reported as a liability on the balance sheet

I. 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.

J. 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.

K. SUBSEQUENT EVENTS

Subsequent events were evaluated through September 28, 2020, which is the date the financial statements were available to be issued.

NOTE 3 -- DEFICIT FUND BALANCE

The Association had a deficit of \$315,892 in the operating fund as of December 31, 2019. Management is evaluating operating expenses and the Board also approved an increase in 2020 assessments, which will aid in resolving this deficit.

NOTE 4 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association contracted with Reserve Advisors, Inc. in 2018 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.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2019

NOTE 4 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONT.)

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.

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 Water Control Improvement District #96 contributed \$335,755 during the year for security services provided by the Harris County Sheriff's Department that benefit both parties.

NOTE 6 -- UNINSURED DEPOSITS

As of December 31, 2019, deposits exceeded the coverage provided by the Federal Deposit Insurance Corporation (FDIC) by \$1,117,940 for the Association and by \$427,800 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 21% 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 \$5,147 for 2019 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, 2019, 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 2016.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2019

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 -- COMMITMENTS

The Association entered into the following commitments for various projects prior to December 31, 2019:

	Estimated Total Cost	Incurred to Date	Estimated Future Commitment
Playground Structure	\$ 73,525	\$ 62,527	\$ 10,998
Water Park Repairs	29,600	14,800	14,800
	<u>\$ 103,125</u>	<u>\$ 77,327</u>	<u>\$ 25,798</u>

NOTE 11 -- FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate – Common Interest Realty Associations (CIRA), Revenue Recognition, and requires the recognition of revenue when promised goods and services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association and the Foundation adopted the new guidance as of January 1, 2019, using the modified retrospective method of transition, which requires that the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association applied the new guidance using the practical expedient provided in Topic 606 that allows the guidance to be applied only to contracts that were not complete as of January 1, 2019. Adoption of the new guidance resulted in changes to the Association’s accounting policies for assessment revenue and contract liabilities related to assessments for specific projects, as previously described.

The adoption of the new revenue recognition guidance resulted in no change to fund balances as of January 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2019
 (UNAUDITED)

Reserve Advisors, Inc. performed a reserve study in 2018 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 12/31/19
Fall Creek Homeowners Association			
<i>General Property:</i>			
Concrete Parking Areas & Sidewalks	0-29	\$ 4,653,125	\$ 478,095
Fencing	16	94,800	-
Irrigation System	0-29	1,023,000	148,000
Light Poles and Fixtures	14	73,600	-
Perimeter Walls	0-29	9,945,000	299,128
Playground Equipment	0-14	218,000	122,915
Ponds	4-11	381,000	-
Signage	0-3	70,000	70,000
Storage Building	0	50,000	50,000
Tennis Courts	1-29	409,680	68,206
<i>Clubhouse:</i>			
Exercise Equipment	2-11	61,000	61,000
HVAC Equipment	1	30,000	30,000
Interior Renovation	0-6	150,000	150,000
Roof	3-15	49,200	-
Security System	0	22,000	9,000
Walls	0	11,400	11,400
Windows & Doors	18	47,700	-
<i>Pools:</i>			
Decking	8-9	45,480	-
Fencing	0-10	78,400	60,123
Furniture	0-6	60,000	60,000
Mechanical Equipment	0-12	124,000	27,917
Pool Finish	8-9	146,920	-
Shade Structures	1-7	35,000	10,486
Water Features	3-8	90,000	18,357
Water Slides	0-9	330,000	65,308
<i>Other:</i>			
Foundation Improvements	0	125,000	125,000
		<u>\$18,324,305</u>	<u>\$ 1,864,935</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONT.)
 DECEMBER 31, 2019
 (UNAUDITED)

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/19
Fairway Crossing			
Concrete Streets	7-29	\$ 2,095,200	\$ 111,607
Gates & Operators	7-17	40,000	40,000
Pond	4	10,500	10,500
		<u>\$ 2,145,700</u>	<u>\$ 162,107</u>

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/19
Serrano Creek			
Concrete Streets	7-29	\$ 3,116,700	\$ 112,244
Gates & Operators	7-17	40,000	40,000
Pond	4-11	255,300	61,811
		<u>\$ 3,412,000</u>	<u>\$ 214,055</u>

	Association	Fairway	Serrano
Reserve Study Anticipated Balance at Year End	<u>\$ 2,747,938</u>	<u>\$ 178,519</u>	<u>\$ 237,158</u>
Percent of Anticipated Balance on Hand at Year End	67.9%	90.8%	90.3%

Reserve Study Recommended Contributions (Based on Original Projections)

	Association	Fairway	Serrano
2020	\$ 402,200	\$ 17,000	\$ 26,300
2021	\$ 402,200	\$ 17,000	\$ 26,900
2022	\$ 411,900	\$ 17,000	\$ 27,500