

FALL CREEK

FALL CREEK HOMEOWNERS ASSOCIATION, INC.

*FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION*

*FOR THE YEAR ENDED
DECEMBER 31, 2020*

Discussion Draft

FALL CREEK

Discussion Draft

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Discussion Draft



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, 2020, 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, 2020 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 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.

Armstrong, Vaughan & Associates, P.C.

October 4, 2021

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED BALANCE SHEET
 DECEMBER 31, 2020

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
ASSETS				
Cash and Cash Equivalents	\$ 1,278,908	\$ 837,415	\$ 13,710	\$ 172,773
Certificates of Deposit	-	1,128,114	-	35,468
Accounts Receivable - Members	338,320	-	-	-
Allowance for Uncollectible Accounts	(125,178)	-	-	-
Other Receivables	-	-	-	-
Interfund Balances	(12,958)	(269,514)	156,613	48,959
Prepaid Insurance	15,977	-	-	-
Other Prepaid Expenses	36,757	-	-	-
TOTAL ASSETS	<u>\$ 1,531,826</u>	<u>\$ 1,696,015</u>	<u>\$ 170,323</u>	<u>\$ 257,200</u>
LIABILITIES AND FUND BALANCE				
<i>Liabilities:</i>				
Accounts Payable	\$ 44,209	\$ -	\$ -	\$ -
ARC Deposits	67,358	-	-	-
Clubhouse Rental Deposits	550	-	-	-
Foundation Enhancement Fees Payable	100,427	-	-	-
Federal Income Tax Payable	1,062	-	-	-
Prepaid Assessments	1,307,503	-	-	-
Spectrum Collections	44,918	-	-	-
<i>Total Liabilities</i>	<u>1,566,027</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Fund Balance (Deficit)</i>	<u>(34,201)</u>	<u>1,696,015</u>	<u>170,323</u>	<u>257,200</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,531,826</u>	<u>\$ 1,696,015</u>	<u>\$ 170,323</u>	<u>\$ 257,200</u>

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>
\$ 10,129	\$ 117,772	\$ 2,430,707	\$ 942,289	\$ -	\$ 3,372,996
-	90,557	1,254,139	-	-	1,254,139
-	-	338,320	-	-	338,320
-	-	(125,178)	-	-	(125,178)
-	-	-	100,427	(100,427)	-
51,151	25,749	-	-	-	-
-	-	15,977	-	-	15,977
-	-	36,757	-	-	36,757
<u>\$ 61,280</u>	<u>\$ 234,078</u>	<u>\$ 3,950,722</u>	<u>\$ 1,042,716</u>	<u>\$ (100,427)</u>	<u>\$ 4,893,011</u>
\$ -	\$ -	\$ 44,209	\$ -	\$ -	\$ 44,209
-	-	67,358	-	-	67,358
-	-	550	-	-	550
-	-	100,427	-	(100,427)	-
-	-	1,062	110	-	1,172
-	-	1,307,503	-	-	1,307,503
-	-	44,918	-	-	44,918
-	-	1,566,027	110	(100,427)	1,465,710
<u>61,280</u>	<u>234,078</u>	<u>2,384,695</u>	<u>1,042,606</u>	<u>-</u>	<u>3,427,301</u>
<u>\$ 61,280</u>	<u>\$ 234,078</u>	<u>\$ 3,950,722</u>	<u>\$ 1,042,716</u>	<u>\$ (100,427)</u>	<u>\$ 4,893,011</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
REVENUES				
Member Assessments	\$ 2,876,585	\$ -	\$ 93,800	\$ -
Builder Assessments	4,103	-	-	-
Foundation Fees	-	-	-	-
Working Capital Fees	6,175	-	-	-
Joint Security Agreement	335,755	-	-	-
Joint Maintenance Agreement	411,000	-	-	-
Late Fees	69,800	-	-	-
Clubhouse Rental Fees	600	-	-	-
Tennis Income	13,433	-	-	-
Other Income	1,788	-	-	-
Gate and Amenity Access Income	2,060	-	650	-
Interest Income	1,748	12,596	-	93
TOTAL REVENUES	3,723,047	12,596	94,450	93
EXPENSES				
<i>Administrative Expenses:</i>				
Management Fees	152,759	-	-	-
Bad Debt Expense	264,726	-	217	-
Community Events	47,363	-	-	-
Other Administrative	111,697	-	-	-
Insurance	176,919	-	-	-
Legal and Accounting Fees	26,064	-	-	-
Tennis Coach Fees	14,224	-	-	-
Taxes	2,180	-	-	-
<i>Total Administrative Expenses</i>	<i>795,932</i>	<i>-</i>	<i>217</i>	<i>-</i>
<i>Contract Services:</i>				
Landscaping	986,640	-	-	-
Security Services	434,873	-	-	-
Pool Service	177,099	-	-	-
Cleaning	23,267	-	-	-
Lake Maintenance	24,810	-	17,637	-
<i>Total Contract Services</i>	<i>\$ 1,646,689</i>	<i>\$ -</i>	<i>\$ 17,637</i>	<i>\$ -</i>

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	\$ -	\$ 3,020,785	\$ -	\$ -	\$ 3,020,785
-	-	4,103	-	-	4,103
-	-	-	186,444	-	186,444
-	-	6,175	-	-	6,175
-	-	335,755	-	-	335,755
-	-	411,000	-	-	411,000
-	-	69,800	-	-	69,800
-	-	600	-	-	600
-	-	13,433	-	-	13,433
-	-	1,788	-	-	1,788
550	-	3,260	-	-	3,260
-	23	14,460	816	-	15,276
<u>50,950</u>	<u>23</u>	<u>3,881,159</u>	<u>187,260</u>	<u>-</u>	<u>4,068,419</u>
-	-	152,759	-	-	152,759
-	-	264,943	-	-	264,943
-	-	47,363	-	-	47,363
-	-	111,697	2	-	111,699
-	-	176,919	-	-	176,919
-	-	26,064	350	-	26,414
-	-	14,224	-	-	14,224
-	-	2,180	110	-	2,290
-	-	<u>796,149</u>	<u>462</u>	<u>-</u>	<u>796,611</u>
-	-	986,640	-	-	986,640
-	-	434,873	-	-	434,873
-	-	177,099	-	-	177,099
-	-	23,267	-	-	23,267
13,161	-	55,608	-	-	55,608
<u>\$ 13,161</u>	<u>\$ -</u>	<u>\$ 1,677,487</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,677,487</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
 (CONT.)
 FOR THE YEAR ENDED DECEMBER 31, 2020

	<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	\$ 225,180	\$ -	\$ -	\$ -
Water	218,115	-	-	-
Telephone and Cable	8,577	-	3,570	-
Garbage Removal	4,716	-	-	-
<i>Total Utilities</i>	<u>456,588</u>	<u>-</u>	<u>3,570</u>	<u>-</u>
<i>Repairs and Maintenance:</i>				
Landscaping & Improvements	186,980	-	6,199	-
Other Repairs	85,770	40,303	3,742	-
Pool Repairs	32,607	66,429	-	-
Irrigation	57,865	-	3,852	-
Amenity Center	36,929	-	1,169	-
Decorating	35,131	-	-	-
Tennis Court Repairs	8,922	62,579	-	-
Fence and Gate Repairs	95,386	12,205	2,563	-
Signage	2,557	-	-	-
<i>Total Repairs and Maintenance</i>	<u>542,147</u>	<u>181,516</u>	<u>17,525</u>	<u>-</u>
TOTAL EXPENSES	<u>3,441,356</u>	<u>181,516</u>	<u>38,949</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenses	281,691	(168,920)	55,501	93
BEGINNING FUND BALANCE (DEFICIT)	(315,892)	1,864,935	209,822	162,107
Transfers Between Funds	<u>-</u>	<u>-</u>	<u>(95,000)</u>	<u>95,000</u>
ENDING FUND BALANCE (DEFICIT)	<u>\$ (34,201)</u>	<u>\$ 1,696,015</u>	<u>\$ 170,323</u>	<u>\$ 257,200</u>

The accompanying notes are an integral part of these statements.

Serrano Creek		HOA Totals	Foundation	Elimination Column	Combined Totals
Operating Fund	Replacement Fund				
\$ -	\$ -	\$ 225,180	\$ -	\$ -	\$ 225,180
-	-	218,115	-	-	218,115
3,197	-	15,344	-	-	15,344
-	-	4,716	-	-	4,716
<u>3,197</u>	<u>-</u>	<u>463,355</u>	<u>-</u>	<u>-</u>	<u>463,355</u>
12,587	-	205,766	-	-	205,766
1,812	-	131,627	-	-	131,627
-	-	99,036	-	-	99,036
4,758	-	66,475	-	-	66,475
-	-	38,098	-	-	38,098
-	-	35,131	-	-	35,131
-	-	71,501	-	-	71,501
4,427	-	114,581	-	-	114,581
-	-	2,557	-	-	2,557
<u>23,584</u>	<u>-</u>	<u>764,772</u>	<u>-</u>	<u>-</u>	<u>764,772</u>
<u>39,942</u>	<u>-</u>	<u>3,701,763</u>	<u>462</u>	<u>-</u>	<u>3,702,225</u>
11,008	23	179,396	186,798	-	366,194
70,272	214,055	2,205,299	855,808	-	3,061,107
(20,000)	20,000	-	-	-	-
<u>\$ 61,280</u>	<u>\$ 234,078</u>	<u>\$ 2,384,695</u>	<u>\$ 1,042,606</u>	<u>\$ -</u>	<u>\$ 3,427,301</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2020

	<u>Homeowners Association</u>		<u>Fairway Crossing</u>	
	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Operating Fund</u>	<u>Replacement Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (Deficiency) of Revenues				
Over (Under) Expenses	\$ 281,691	\$ (168,920)	\$ 55,501	\$ 93
Adjustments to Reconcile Excess (Deficiency) of Revenues Over (Under) Expenses to Net Cash Provided (Used) by Operating Activities:				
(Increase) Decrease in:				
Accounts Receivable (Net)	(59,310)	-	-	-
Other Receivables	12,525	-	-	-
Prepaid Insurance	(11,209)	-	-	-
Other Prepaid Expenses	(2,175)	-	-	-
Increase (Decrease) in:				
Accounts Payable	1,525	-	-	-
ARC Deposits	26,950	-	-	-
Clubhouse Rental Deposits	50	-	-	-
Foundation Enhancement Fees Payable	10,036	-	-	-
Federal Income Tax Payable	(2,350)	-	-	-
Prepaid Assessments	174,630	-	-	-
Spectrum Collections	5,404	-	-	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>437,767</u>	<u>(168,920)</u>	<u>55,501</u>	<u>93</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment in Certificates of Deposit	-	(8,990)	-	(401)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ -</u>	<u>\$ (8,990)</u>	<u>\$ -</u>	<u>\$ (401)</u>

The accompanying notes are an integral part of these statements.

Serrano Creek		HOA		Elimination	Combined
Operating	Replacement	Totals	Foundation	Column	Totals
Fund	Fund				
\$ 11,008	\$ 23	\$ 179,396	\$ 186,798	\$ -	\$ 366,194
-	-	(59,310)	-	-	(59,310)
-	-	12,525	(10,036)	10,036	2,489
-	-	(11,209)	-	-	(11,209)
-	-	(2,175)	-	-	(2,175)
-	-	1,525	-	-	1,525
-	-	26,950	-	-	26,950
-	-	50	-	-	50
-	-	10,036	-	(10,036)	10,036
-	-	(2,350)	110	-	(2,240)
-	-	174,630	-	-	174,630
-	-	5,404	-	-	5,404
<u>11,008</u>	<u>23</u>	<u>335,472</u>	<u>176,872</u>	<u>-</u>	<u>512,344</u>
-	(1,023)	(10,414)	-	-	(10,414)
\$ -	\$ (1,023)	\$ (10,414)	\$ -	\$ -	\$ (10,414)

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 COMBINED STATEMENT OF CASH FLOWS (CONT.)
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Homeowners Association		Fairway Crossing	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
CASH FLOWS FROM FINANCING ACTIVITIES				
Transfers Between Funds	\$ -	\$ -	\$ (95,000)	\$ 95,000
Interfund Advances (Repayments)	(254,610)	397,968	(94,332)	494
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(254,610)	397,968	(189,332)	95,494
NET INCREASE (DECREASE) IN CASH	183,157	220,058	(133,831)	95,186
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,095,751	617,357	147,541	77,587
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,278,908	\$ 837,415	\$ 13,710	\$ 172,773
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>
\$ (20,000)	\$ 20,000	\$ -	\$ -	\$ -	\$ -
(50,769)	1,249	-	-	-	-
<u>(70,769)</u>	<u>21,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(59,761)	20,249	325,058	176,872	-	501,930
<u>69,890</u>	<u>97,523</u>	<u>2,105,649</u>	<u>765,417</u>	<u>-</u>	<u>2,871,066</u>
<u>\$ 10,129</u>	<u>\$ 117,772</u>	<u>\$ 2,430,707</u>	<u>\$ 942,289</u>	<u>\$ -</u>	<u>\$ 3,372,996</u>
\$ -	\$ -	\$ 4,000	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020

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 2020, 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, 2020

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, 2020 in the amount of \$125,178 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 \$256,386 and \$338,320, 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, 2020

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 \$1,132,873 and \$1,307,503, 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 October 4, 2021, which is the date the financial statements were available to be issued.

NOTE 3 -- DEFICIT FUND BALANCE

The Association had a deficit of \$34,201 in the operating fund as of December 31, 2020. There was an increase in the 2020 assessment rate which is aiding in resolving the 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, 2020

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, 2020, deposits exceeded the coverage provided by the Federal Deposit Insurance Corporation (FDIC) by \$226,792 for the Association.

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 \$1,650 for 2020 for the Association and \$110 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, 2020, 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 2017.

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS (CONT.)
DECEMBER 31, 2020

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.

Discussion Draft

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

Discussion Draft

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2020
 (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 12/31/20
Fall Creek Homeowners Association			
<i>General Property:</i>			
Concrete Parking Areas & Sidewalks	0-28	\$ 4,653,125	\$ -
Fencing	15	94,800	-
Irrigation System	0-28	1,023,000	-
Light Poles and Fixtures	13	73,600	-
Perimeter Walls	0-28	9,945,000	-
Playground Equipment	0-13	218,000	-
Ponds	3-10	381,000	-
Signage	0-2	70,000	-
Storage Building	0	50,000	-
Tennis Courts	0-28	409,680	-
<i>Clubhouse:</i>			
Exercise Equipment	1-10	61,000	-
HVAC Equipment	0	30,000	-
Interior Renovation	0-5	150,000	-
Roof	2-14	49,200	-
Security System	0	22,000	-
Walls	0	11,400	-
Windows & Doors	17	47,700	-
<i>Pools:</i>			
Decking	7-8	45,480	-
Fencing	0-9	78,400	-
Furniture	0-5	60,000	-
Mechanical Equipment	0-11	124,000	-
Pool Finish	7-8	146,920	-
Shade Structures	0-6	35,000	-
Water Features	2-7	90,000	-
Water Slides	0-8	330,000	-
<i>Other:</i>			
Foundation Improvements	0	125,000	-
<i>Unallocated Balance</i>		-	1,696,015
		<u>\$18,324,305</u>	<u>\$ 1,696,015</u>

FALL CREEK HOMEOWNERS ASSOCIATION, INC.
 FUTURE MAJOR REPAIRS AND REPLACEMENTS (CONT.)
 DECEMBER 31, 2020
 (UNAUDITED)

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/20
Fairway Crossing			
Concrete Streets	6-28	\$ 2,095,200	\$ -
Gates & Operators	6-16	40,000	-
Pond	3	10,500	-
<i>Unallocated Balance</i>		-	257,200
		<u>\$ 2,145,700</u>	<u>\$ 257,200</u>

	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/20
Serrano Creek			
Concrete Streets	6-28	\$ 3,116,700	\$ -
Gates & Operators	6-16	40,000	-
Pond	3-10	255,300	-
<i>Unallocated Balance</i>		-	234,078
		<u>\$ 3,412,000</u>	<u>\$ 234,078</u>

	Association	Fairway	Serrano
Reserve Study Anticipated Balance at Year End	<u>\$ 2,922,358</u>	<u>\$ 197,763</u>	<u>\$ 266,462</u>
Percent of Anticipated Balance on Hand at Year End	58.0%	130.1%	87.8%

Reserve Study Recommended Contributions (Based on Original Projections)

	Association	Fairway	Serrano
2021	\$ 402,200	\$ 17,000	\$ 26,300
2022	\$ 411,900	\$ 17,000	\$ 27,500
2023	\$ 421,800	\$ 17,000	\$ 28,200