

SPRING CREEK HOMEOWNERS' ASSOCIATION

Financial Statements and Supplementary Information with Independent Auditor's Report

For the year ended December 31, 2019

With unaudited comparative totals
For the year ended December 31, 2018

SPRING CREEK HOMEOWNERS' ASSOCIATION
FINANCIAL STATEMENTS

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Financial Statements	
Balance sheets.....	3
Statements of revenue and expenses	4
Statement of Comprehensive Income and Changes in Fund Balances	5
Statements of cash flows	6
Notes to financial statements	7
Required Supplementary Information:	
Information on Future Major Repairs and Replacements.....	16
Supplementary Information:	
Schedule of Expenses.....	18
Schedule of Operating Fund Revenues and Expenses – Budget and Actual	19
Schedule of Reserve Fund Revenues and Expenses – Budget and Actual	20



Independent Auditors' Report

October 13, 2020

Board of Directors
Spring Creek Homeowners' Association
Jackson, Wyoming 83001

Report on the Financial Statements

We have audited the accompanying financial statements of Spring Creek Homeowners' Association which comprise the balance sheet as of December 31, 2019, and the related statements of revenue and expenses, changes in fund balance and cash flows for the years 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 misstatements 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 respective financial position of Spring Creek Homeowners' Association as of December 31, 2019 and the results of their operations, and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2018 financial statements were reviewed by us, and our report thereon, dated September 20, 2019, stated we were not aware of any material modifications that should be made to those financial statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supporting schedule of expenses, the schedule of operating fund revenues and expenses – budget and actual and the schedule of reserve fund revenues and expenses – budget and actual are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of the Association's management and 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 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that information on future major repairs and replacements on pages 16 and 17 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.

Thompson Palmer & Associates, PC
Certified Public Accountants

SPRING CREEK HOMEOWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2019
WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2018 (UNAUDITED)

	Operating Fund	Replacement Fund	Totals	
			2019	2018
ASSETS				
Cash, including interest-bearing deposits	\$ 591,740	\$ -	\$ 591,740	\$ 344,216
Investments - cash (Note #4)	-	262,211	262,211	28,960
Investments - securities (Note #4)	-	1,457,160	1,457,160	1,765,962
Assessments receivable (Note #3)	30,308	-	30,308	51,457
Prepaid income tax	-	-	-	-
Prepaid expenses	49,100	3,876	52,976	34,564
Due from reserve fund	(40,610)	-	(40,610)	94,352
Due to operating fund	-	40,610	40,610	(94,352)
Other receivables	65,283	950	66,233	9,503
Total current assets	695,821	1,764,807	2,460,628	2,234,662
Fixed assets	80,000	-	80,000	80,000
Accumulated depreciation	(10,598)	-	(10,598)	(8,546)
Net fixed assets	69,402	-	69,402	71,454
Total assets	<u>\$ 765,223</u>	<u>\$ 1,764,807</u>	<u>\$ 2,530,030</u>	<u>\$ 2,306,116</u>
LIABILITIES				
Accounts payable	\$ 188,775	-	\$ 188,775	\$ 56,069
Income tax payable	-	31,170	31,170	136,454
Advanced homeowner assessments	321,969	-	321,969	262,387
Homeowner construction deposits	88,251	-	88,251	70,713
Accrued Expenses	-	-	-	6,892
Total current liabilities	598,995	31,170	630,165	532,515
Deferred tax liability, current year	-	29,795	29,795	29,670
Deferred tax liability, prior year	-	-	-	-
deferred taxes	-	29,670	29,670	-
Total liabilities	598,995	90,635	689,630	562,185
FUND BALANCES				
Accumulated excess of revenues over expenses	11,278	1,732,653	1,743,931	2,306,634
Accumulated other comprehensive income (loss) (Note #7)	154,950	(58,481)	96,469	(562,703)
Total fund balances	166,228	1,674,172	1,840,400	1,743,931
Total liabilities and fund balances	<u>\$ 765,223</u>	<u>\$ 1,764,807</u>	<u>\$ 2,530,030</u>	<u>\$ 2,306,116</u>

SPRING CREEK HOMEOWNERS' ASSOCIATION
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	Operating Fund	Replacement Fund	Totals	
			2019	2018
REVENUES				
Assessments	\$ 1,662,576	\$ 280,448	\$ 1,943,024	\$ 1,730,183
Interest income	549	-	549	274
Other income	7,037	41,308	48,345	56,267
Total revenues	<u>1,670,162</u>	<u>321,756</u>	<u>1,991,918</u>	<u>1,786,724</u>
EXPENSES				
Operating expenses - schedule of expenses	1,515,212		1,515,212	1,400,119
Replacement other - schedule of expenses		664,926	664,926	899,796
Total expenses	<u>1,515,212</u>	<u>664,926</u>	<u>2,180,138</u>	<u>2,299,915</u>
Excess (deficiency) of revenues over expenses, operating	<u>154,950</u>	<u>(343,170)</u>	<u>(188,220)</u>	<u>(513,191)</u>
OTHER REVENUE (EXPENSE)				
Net realized gains (losses) on securities	-	172,605	172,605	667,535
Total other revenue (expense)	<u>-</u>	<u>172,605</u>	<u>172,605</u>	<u>667,535</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES, OPERATING	<u>154,950</u>	<u>(170,565)</u>	<u>(15,615)</u>	<u>154,344</u>

SPRING CREEK HOMEOWNERS' ASSOCIATION
STATEMENT OF COMPREHENSIVE INCOME AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	Operating Fund	Replacement Fund	Totals	
			2019	2018
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES, OPERATING	154,950	(170,565)	(15,615)	154,344
OTHER COMPREHENSIVE INCOME (NOTE 7)				
Unrealized gains (losses) on securities:				
Unrealized holding losses arising during period		261,345	261,345	(51,823)
Less: reclassification adjustment for gains included in excess of revenues over expenses		(119,466)	(119,466)	(741,092)
	-	-	-	-
Other comprehensive income before tax	-	141,879	141,879	(792,915)
Income tax expense related to items of other comprehensive income	-	(29,795)	(29,795)	166,512
Other comprehensive income net of tax	-	112,084	112,084	(626,403)
Comprehensive income	\$ 154,950	\$ (58,481)	\$ 96,469	\$ (472,059)
Fund Balance - Beginning of year	\$ 11,276	\$ 1,732,655	\$ 1,743,931	\$ 2,215,990
Total Comprehensive Income	154,950	(58,481)	96,469	(472,059)
Fund Balance - End of year	<u>\$ 166,226</u>	<u>\$ 1,674,174</u>	<u>\$ 1,840,400</u>	<u>\$ 1,743,931</u>

SPRING CREEK HOMEOWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	Operating Fund	Replacement Fund	Totals	
			2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Excess (deficiency) of revenues over expenses	154,950	(343,170)	(188,220)	\$ (513,191)
Adjustments to reconcile excess (deficiency) of revenues over expenses to net cash provided by by operating activities:				
(Increase) decrease in assets:				
Assessments receivable	21,149		21,149	(11,340)
Prepaid income tax			-	-
Prepaid expenses	(14,536)	(3,876)	(18,412)	(11,985)
Other assets			-	-
Other receivables	(65,283)	8,553	(56,730)	(4,003)
Depreciation add back	2,052		2,052	2,051
Increase (decrease) in liabilities:				
Accounts payable	132,706		132,706	(7,466)
Income tax payable		(105,284)	(105,284)	77,166
Advanced homeowner assessments	59,582		59,582	(55,537)
Homeowner construction deposits	17,538		17,538	(2,458)
Other Accruals	(6,892)	-	(6,892)	(77,001)
Net cash provided by operating activities	301,266	(443,777)	(142,511)	(603,764)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of securities	-	623,240	623,240	1,962,382
Other investing		46	46	
Purchase of securities	-	-	-	(1,646,064)
Net cash used by investing activities	-	623,286	623,286	316,318
CASH FLOWS FROM FINANCING ACTIVITIES				
Inter-fund transfers	(53,742)	53,742	-	-
Net cash provided (used) by financing activities	(53,742)	53,742	-	-
NET INCREASE (DECREASE) IN CASH	247,524	233,251	480,775	(287,446)
CASH AT BEGINNING OF YEAR	344,216	28,960	373,176	660,622
CASH AT END OF YEAR	<u>\$ 591,740</u>	<u>\$ 262,211</u>	<u>\$ 853,951</u>	<u>\$ 373,176</u>
SUPPLEMENTAL DISCLOSURE				
Income taxes paid			\$ 136,070	\$ 1,181

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #1 – NATURE OF ORGANIZATION

Spring Creek Homeowners' Association is a non-profit association incorporated September 8, 1982, in the State of Wyoming. The Association is responsible for the insurance, operations and maintenance of the common facilities at Spring Creek Ranch, located in Teton County, Wyoming. Property or "Unit" owners, within Spring Creek Ranch, are members of the Association. Unit owners may also be members of subsidiary associations for particular subdivisions. The Association is governed by articles of incorporation, by-laws and declaration of covenants, conditions and restrictions.

NOTE #2 – DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 13, 2020, the date that the financial statements were available to be issued.

NOTE #3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund accounting

The financial statements are presented on the accrual basis. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds, established according to their nature and purpose:

Operating fund - Used to account for financial resources available for the general operations of the Association.

Replacement fund - Used to accumulate financial resources designated for future major repairs and replacements.

Assessments receivable

The Association levies monthly assessments upon its members to pay operating costs and fund major repairs and replacements. The Association may file liens and take legal action against any member whose monthly payments are delinquent. As of December 31, 2019 and 2018 assessments receivable are \$30,308 and \$51,457 respectively.

Assessments are due on the first of the month, past due on the first of the next month, and are delinquent when they are more than 90 days in arrears. Late fees are charged at the greater of \$25 or 1.5% per month. At December 31, 2019, eight homeowners and \$26,132.24 of assessments were delinquent. The Association feels that all monies are collectible.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment

The infrastructure, including roads, utilities, and related buildings, within the Association boundaries are property of the Spring Creek Improvement and Service District (SCISD). Under agreement, the Association manages and maintains this infrastructure with the ability to request reimbursement from the SCISD for any major expenditure. Association expenditures to maintain these assets will be expensed as incurred.

The Association also maintains the common area and exterior of the Harvest Dance and Spirit Dance subdivisions. Association expenditures to maintain these assets are expensed as incurred and charged to the respective subdivision's operating or reserve funds.

Per the CC&Rs, the Association cannot sell common real property without 100% positive approval of all homeowners. Common property must be used as outlined in the CC&Rs.

Expenditures for new asset acquisitions may be capitalized if significant.

Property and equipment are recorded at cost and consist of the following:

Hot tub	\$80,000
Less accumulated depreciation	<u>(10,598)</u>
Net assets	<u>\$69,402</u>

Depreciation

Property and equipment are being depreciated over their estimated useful lives using the straight-line method.

Accounting estimates

In conformity with accounting principles generally accepted in the United States of America, the preparation of financial statements requires management to make certain 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ from estimates.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Rounding Convention

A rounding convention to the nearest whole dollar has been applied throughout this report, therefore the precision displayed in any monetary amount is plus or minus \$1. The rounding convention is applied to each amount displayed in a column, whether detail item or total.

Insurance

It is the responsibility of the Association to provide liability and property damage insurance coverage for the common elements, including certain building exteriors, and the limited common elements of the project. Costs of the insurance are charged to the owners and prorated among the owners as set forth in the declarations. The building policy and earthquake coverage amounts are as follows:

	2019	2018
Building policy	\$ 36,224,599	\$ 24,000,000
Earthquake	\$ 36,532,223	\$ 28,585,157

Statement of cash flows

Cash equivalents include all highly liquid debt instruments purchased with a maturity of three months or less.

The Association records its investments that are classified as "available for sale" at their fair market value. In accordance with this method of reporting investments, the Association recorded unrealized gains (losses) of \$141,879 and \$(792,915) in 2019 and 2018, respectively. See Note 7 – Other Comprehensive Income.

Comparative information

The financial statements include certain prior year summarized comparative information in total. 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 organization's financial statements (unaudited) for the year ended December 31, 2018, from which the summarized information was derived.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Income Taxes

Deferred income taxes reflect the temporary differences between the tax basis of assets and liabilities and the reported amounts of these assets and liabilities for financial reporting purposes. The Association's net unrealized gain and deferred tax liability as of December 31, 2019 and 2018 are shown in Note 7 – Other Comprehensive Income.

NOTE #4 – INVESTMENTS – FAIR VALUE

The Association conforms to generally accepted accounting principles, which require debt and equity securities that are classified as available for sale to be recorded at "fair value" on the financial statements. Fair value measurements establish a hierarchical framework for disclosure of and measurement of investments at fair value defined as Level I, II, and III inputs. These inputs are based on a number of factors, including the type of investment and the characteristics specific to the investment. The Association's investments are all considered to be Level I inputs as they are based on quoted market prices.

	Cash	Securities	Totals	
			2019	2018
Beginning balance - fair value	\$ 28,960	\$ 1,765,962	\$ 1,794,922	\$ 2,485,418
Net cash in/out	191,943	(623,286)	(431,343)	(621,716)
Realized earnings (losses)	41,308	172,605	213,913	724,135
Unrealized gains (losses)	-	141,879	141,879	(792,915)
Ending balance - fair value	\$ 262,211	\$ 1,457,160	\$ 1,719,371	\$ 1,794,922

Net unrealized and realized gain on securities is as follows:

Unrealized gain (loss)	\$ 141,879	\$ (792,915)
Realized gain (loss)	172,605	667,535
Net unrealized and realized gain on securities	\$ 314,484	\$ (125,380)

Net realized gain on securities available for sale:

Security sales proceeds	\$ 623,240	\$ 1,962,382
Basis of securities sold	(450,635)	(1,294,847)
Realized gain (loss) on sales of securities	\$ 172,605	\$ 667,535

The cost of each security available for sale is adjusted to fair market value annually. This adjusted fair market value is the basis used to compute unrealized gains and losses. The cost basis of each security is also tracked and used to compute realized gains and losses.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #5 - INCOME TAXES

Each year, Associations may elect to be taxed either as homeowners associations or as regular corporations with Internal Revenue Code Section 277 exceptions. This current year the Association elected to file as a corporation using form 1120 because it resulted in lower taxes. Under this scenario, the Association is taxed on all income and expenses related to its operations with a Section 277 limitation preventing the Association from showing a loss as a result of its exempt function expenses and / or netting nonexempt income with an operating loss. Nonexempt function income includes interest, investment income and revenues from non-members. Operating expenses related to the nonexempt income are allocated to offset a portion of the taxable income. The resulting income is taxed at 21% on form 1120.

Income tax expense in 2019 and 2018 was \$30,546 and \$136,454 respectively. The taxes were higher in the prior year due to the Association selling more securities to finance needed repairs. The estimated tax penalties which are an interest charge based on the government's expectation that estimated tax payments will be made throughout the year rather than in one large amount near the end of the tax year were respectively \$695 and \$2,129. The federal income tax returns of the Association for 2019, 2018, 2017 and 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

NOTE #6 - COMMITMENTS AND CONTINGENCIES

Future major repairs and replacements

The Association has budgeted for funds to be accumulated to offset costs of future major repairs and replacements. The Association seeks to accumulate fifty percent of the replacement costs over the useful lives of the Project Common facilities, and to accumulate funds for specific repairs and maintenance of the Spirit Dance and Harvest Dance sites.

The replacement funds totaling \$1,764,807 consist of cash, including interest bearing monies of \$262,211, taxable and tax-exempt investments including accrued interest totaling \$1,457,160, other receivables of \$950, prepaid expenses of \$3,876, and an inter-fund receivable of \$40,610 as of December 31, 2019. The fund is generally not available for operating purposes. It is the Associations' policy to retain the interest earned on such funds in the reserve fund for future major repairs and replacements.

Periodically, a reserve study determines the replacement value of the inventory of infrastructure items as of the date of the study. A new study for Harvest Dance and Spirit Dance was completed in January of 2019. For Project Common the last study was updated in 2015. The study's estimated replacement costs are adjusted to provide for inflation for the years between the date of the study and the current year.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #6 - COMMITMENTS AND CONTINGENCIES (continued)

Future major repairs and replacements (continued)

The Association is funding for such major repairs and replacements as follows:

	2019	2018
Replacement fund		
Assessments – Project Common	\$ 31,970	\$ 36,456
Assessments – Spirit Dance	134,954	113,962
Assessments – Harvest Dance	<u>113,523</u>	<u>92,595</u>
	<u>\$ 280,448</u>	<u>\$ 243,013</u>

Amounts accumulated in the replacement fund may not be adequate to meet future needs. However, if additional funds are needed, the Board of Directors of the Association has the right to increase regular assessments; and the Association has the right, subject to member approval, to levy emergency assessments, to levy special assessments, or to borrow. The Association may delay major repairs and replacements until funds are available.

Litigation

In January 2018, the Association received from Thompson Palmer incorrect tax advice related to offset capital gains with reserve expense. Based on this guidance, the Association undertook a strategy to liquidate investments and realize capital gains, which then created a tax liability of about \$136,000. The incorrect advice was realized when the 2017 Federal Tax Returns were being prepared. The Association sought reimbursement for this tax liability and agreed on a resolution in August 2020.

In February 2019, the Association received a letter from an attorney representing an anonymous group of Homeowners called the SC Neighbors. Subsequently, Clay Cook and Mary Dixon were disclosed as parties within this group. The letter identified a number of questions related to operations within the Association and requested numerous documents to be produced. The Association notified the Directors and Officers policy carrier and defense coverage is being provided for legal counsel related to this matter. Currently, the SC Neighbors are seeking numerous documents to be produced, or alternatively, a time to be scheduled for document inspection. They are also objecting to some new Association rules. The Association and SC Neighbors are expecting to follow protocols of mediation, and if unsuccessful, binding arbitration.

In July 2020, the Association received a letter from a homeowner, Steven Simoni, as representing another homeowner, John Sacchi, objecting to some new Association rules. The homeowners and the Association had a telephonic meeting to attempt to resolve the objections. The meeting was unsuccessful, and the homeowners opted not to follow Association covenants by bypassing mediation and arbitration. They promptly sent letters to the Department of Justice, the State of Wyoming Attorney general, and the County Prosecutor urging them to take action. The Association notified the Directors and Officers policy carrier and defense coverage is being provided for legal counsel related to this matter.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

The Association's covenants provide that dispute resolution protocols be mediation, and if unsuccessful, binding arbitration with the prevailing party recovering all related costs. The Association has sought legal counsel in advance of all decisions and, based on available information as of September 29, 2020, believes that the Association will either resolve the disputes by negotiation and collaboration, or alternatively prevail and recover its costs from formal dispute resolution if the matters are not resolved informally with the disputing parties.

NOTE #7 – OTHER COMPREHENSIVE INCOME

The Association complies with the provisions of FASB ASC 220, *Comprehensive Income*, which establishes rules for the reporting and presentation of comprehensive income and its components. Accounting principles generally require that recognized revenue, expense, gains, and losses be included in net income. However, certain changes in assets and liabilities such as unrealized gain and loss on available for sale securities, are reported as a separate component of comprehensive income which is reported on the balance sheet and statement of comprehensive income and changes in fund balances.

The cost of each security available for sale is adjusted to fair market value annually. This adjusted fair market value is the basis used to compute unrealized gains and losses for the period. These are reported in other comprehensive income rather than on the statement of revenues and expenses. This reduces volatility in the statement of revenues and expenses as the fair market values of securities move up and down. When a security is sold, the realized gain or loss is recognized on the statement of revenues and expenses with an offsetting entry to move the accumulated unrealized gains or losses from other comprehensive income. Potential taxes related to the unrealized gains and losses are also reported in other comprehensive income.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

NOTE #7 – OTHER COMPREHENSIVE INCOME (continued)

The components of other comprehensive income for 2018 and 2017 including the prior period adjustment are as follows:

	2019	2018
Other comprehensive Income		
Unrealized holding gains (losses) during period	<u>\$ 141,879</u>	<u>\$ (792,915)</u>
Increase (decrease) in current year of other comprehensive income from unrealized holding gains (losses) during period (losses)	<u>\$ 141,879</u>	<u>\$ (792,915)</u>
Changes in accumulated other comprehensive income		
Accumulated other comprehensive income, beginning	141,288	\$ 934,202
Unrealized holding gains (losses) during period	261,345	(51,823)
Less reclassification adjustment for gains (losses) included in excess (deficiency) of revenues over expenses	<u>(119,466)</u>	<u>(741,092)</u>
Unrealized gains (losses) available for sale securities	141,879	(792,915)
Accumulated other comprehensive income (loss), before taxes	283,167	141,287
Estimated taxes on other comprehensive income		
Beginning accumulated tax (expense) benefit	(29,670)	(196,182)
Current year tax (expense) benefit	(29,795)	166,512
Total deferred taxes	<u>(59,465)</u>	<u>(29,670)</u>
Total accumulated other comprehensive income (loss), net of tax	<u>\$ 223,702</u>	<u>\$ 111,617</u>
Total current year change in other comprehensive income unrealized gains (losses) available for sale securities and current year tax (expense) benefit	112,084	(626,403)

Note #8 – CREDIT AND MARKET RISK

The Association's financial instruments consist of cash, investments, and homeowner receivables. At December 31, 2019 and 2018, cash and cash equivalents exceeding federally insured limits totaled \$206,985 and \$0. Investments amounting to \$1,719,371 and \$1,794,922 were uninsured at December 31, 2019 and 2018, respectively. Receivables are due from unit owners and are considered collectible.

SPRING CREEK HOMEOWNERS' ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (UNAUDITED)

Note #9 – CONCENTRATIONS

Spring Creek Ranch is located in the greater Jackson Hole Wyoming area – a popular vacation destination as well as place to live. The Association is exposed to risks associated with conditions affecting the economy, real estate, tourism, and weather for its geographical area.

NOTE #10 – RELATED PARTIES

Spring Creek Ranch Management Company, LLC

Spring Creek Ranch Management Company, LLC ("SCRMC"), of which Stephen Price and Derek Goodson are principals, provides various services to the Association. SCRMC operates under a written agreement with the Association. Except for maintenance services, all fees are fixed by either contract or the current year's budget. Maintenance services are billed according to time and materials. The books of the Association are reviewed annually by an independent accounting firm, and the policy of the Board is to have the books of the Association audited every five years. Stephen Price is a member of the Association's Board and recused himself in all matters related to SCRMC and the Association. Derek Goodson has been appointed by the Board as the Association's Assistant Treasurer.

The Association paid Spring Creek Ranch Management Company LLC \$894,715 and \$784,082 in 2019 and 2018, respectively. The Association owed \$30,469 and \$35,341 at 2019 and 2018 year end for December fees.

Spring Creek Improvement & Service District

The boundaries of the Association are almost identical to the boundaries of the Spring Creek Improvement & Service District; therefore, the Association and the District have the common goal to appropriately maintain the infrastructure within the boundaries. In March 2011, the Association and the District entered into an agreement to provide services within their boundaries. As part of the agreement, the Association may pay for improvements or advance funds to the District to perform improvements. If such amounts are paid by the Association, they may request reimbursement from the District. The District owed the Association \$0 and \$0 at 2019 and 2018 year-end for these improvements.

On a day to day basis, the Association performs tasks for the District. Then the District reimburses the Association for those costs. In 2019, The Association invoiced the District for \$54,659 of expenses as follows: water expenses in the amount of \$21,330, sewer system in the amount of \$303, roads in the amount of \$22,410, and administrative expenses in the amount of \$10,161. The invoice was paid in 2020.

NOTE#11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2020, the date on which the financial statements were available to be issued.

SPRING CREEK HOMEOWNERS' ASSOCIATION
 REQUIRED SUPPLEMENTARY INFORMATION ON
 FUTURE MAJOR REPAIRS AND REPLACEMENTS
 DECEMBER 31, 2019

Periodically, a reserve study determines the replacement value of the inventory of infrastructure items as of the date of the study. A study for Harvest Dance and Spirit Dance was completed in January of 2019. For Project Common the last study was updated in 2015. The study's estimated replacement costs are adjusted to provide for inflation for the years between the date of the study and the current year.

The following information is based on the 2015 study for Project Common and the 2019 studies for Spirit Dance and Harvest Dance and presents significant information about the components of common and site property.

Because the costs and remaining useful lives are estimated, the actual expenditures may vary from those presented.

	Estimated Remaining Useful Life Years	Estimated Current Replacement Cost	Fiscal Year 2019 Budget Allocation	Percent of Total Budget Allocation
Project common components				
Equipment, water, sewer and common	2-54	16,389,751	\$ 31,970	11.40%
Sub-total		<u>16,389,751</u>	<u>31,970</u>	<u>11.40%</u>
Site common components				
Spirit Dance Subdivision	0-17	5,010,000	134,954	48.12%
Harvest Dance Subdivision	0-19	<u>5,112,000</u>	<u>113,523</u>	<u>40.48%</u>
Sub-total		<u>10,122,000</u>	<u>248,477</u>	<u>88.60%</u>
Total		<u><u>\$ 26,511,751</u></u>	<u><u>\$ 280,447</u></u>	<u><u>100.00%</u></u>

SPRING CREEK HOMEOWNERS' ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION ON
FUTURE MAJOR REPAIRS AND REPLACEMENTS
DECEMBER 31, 2019

	Beginning Balance 2019	Sources (Uses)				Ending Balance 2019
		Assessments	Fund Expenses	Earnings Gain (Loss)		
				Realized	Unrealized**	
Project Common	\$ 389,659	\$ 31,970	\$ (121,208)	\$ 36,843	\$ 23,239	\$ 360,503
Site (subdivision)						
Spirit Dance						
Major repairs	568,350	134,954	(57,664)	75,561	44,311	765,512
Harvest Dance						
Major repairs	769,527	113,523	(455,221)	70,229	44,258	542,316
Sun Dance*						
Major repairs	5,118	-		447	276	5,841
Sub-total	1,342,995	248,477	(512,885)	146,237	88,845	1,313,669
Total reserve fund	\$ 1,732,654	\$ 280,448	\$ (634,093)	\$ 183,080	\$ 112,084	\$ 1,674,172

* The association is not responsible for major repairs within the Sun Dance subdivision.

**Includes the tax provision for unrealized gains.

SPRING CREEK HOMEOWNERS' ASSOCIATION
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	2019	2018
OPERATING EXPENSES		
Administration and accounting	73,896	82,680
Security	169,320	131,280
Maintenance	98,868	114,161
Audit fees		440
Credit card commissions & discounts	39,023	41,987
Depreciation	2,052	2,051
Directors expense		(5)
Lease - JH Land Trust	7,000	7,000
Environmental	13,066	12,060
Firewood	113	47,419
Insurance	176,154	147,973
Legal	64,893	17,558
Management fees		70,140
Operating reserve	2,777	
Other operating expenses and supplies	30,402	20,417
Penalties and interest		-
Property taxes	3,873	3,908
Recreational facilities	122,859	112,203
Repairs and maintenance		
Building	41,665	2,908
Landscaping	13,644	9,251
Roads and paths	249,944	199,781
Trash removal	49,324	37,129
Telephone	72,240	62,426
Tractor	1,592	1,290
Transportation	123,488	98,019
Water and sewer	159,019	178,043
Total operating expenses	<u>1,515,212</u>	<u>1,400,119</u>
REPLACEMENT FUND EXPENSES		
Brokerage fees	46	246
Foreign taxes	-	544
Income tax	30,786	136,454
Site common - Harvest Dance	455,221	157,669
Site common - Spirit Dance	57,664	504,924
Project common	121,208	99,959
Total replacement fund expenses	<u>664,925</u>	<u>899,796</u>

SPRING CREEK HOMEOWNERS' ASSOCIATION
SCHEDULE OF OPERATING FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	2019			2018
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES				
Assessments	\$ 1,662,568	\$ 1,662,576	\$ 8	\$ 1,487,170
Interest income	-	549	549	274
Other	-	7,037	7,037	3,319
	1,662,568	1,670,162	7,594	1,490,763
OPERATING EXPENSES				
Administration and accounting	98,320	73,896	24,424	82,680
Security	169,320	169,320	-	131,280
Maintenance	125,350	98,868	26,482	114,161
Audit fees	7,500	-	7,500	440
Credit card commissions & discounts	20,489	39,023	(18,534)	41,987
Depreciation	-	2,052	(2,052)	2,051
Directors expense	1,380	-	1,380	(5)
Lease - JH Land Trust	7,000	7,000	-	7,000
Environmental	12,000	13,066	(1,066)	12,060
Firewood	-	113	(113)	47,419
Income Tax	9,088	-	9,088	-
Insurance	145,246	176,154	(30,908)	147,973
Legal	83,400	64,893	18,507	17,558
Management fees	-	-	-	70,140
Office supplies	2,000	-	2,000	-
Operating reserve	25,800	2,777	23,023	-
Other operating expenses and supplies	45,142	30,402	14,740	20,417
Penalties and interest	-	-	-	-
Property taxes	5,130	3,873	1,257	3,908
Recreational facilities	128,692	122,859	5,833	112,203
Repairs and maintenance				
Building	37,200	41,665	(4,465)	2,908
Landscaping	21,750	13,644	8,106	9,251
Roads and paths	291,429	249,944	41,485	199,781
Trash removal	38,352	49,324	(10,972)	37,129
Telephone	72,240	72,240	-	62,426
Tractor	3,000	1,592	1,408	1,290
Transportation	123,488	123,488	-	98,019
Water and sewer	189,249	159,019	30,230	178,043
Total operating expenses	1,662,566	1,515,212	147,354	1,400,119
Excess of operating fund revenues over (under) operating fund expenses	\$ 2	\$ 154,950	\$ 154,948	\$ 90,644

SPRING CREEK HOMEOWNERS' ASSOCIATION
SCHEDULE OF RESERVE FUND REVENUES AND EXPENSES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2019
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2018 (UNAUDITED)

	2019			2018
	Budget	Actual	Variance Favorable (Unfavorable)	Actual
REVENUES				
Project Common	\$ 31,978	\$ 31,970	\$ (8)	\$ 36,456
Spirit Dance	134,954	134,954	0	113,962
Harvest Dance	113,524	113,523	(1)	92,595
Interest and dividend income	-	41,308	41,308	-
	<u>280,456</u>	<u>321,756</u>	<u>41,300</u>	<u>243,013</u>
OPERATING EXPENSES				
Brokerage fees	-	46	46	246
Foreign taxes	-	-	-	544
Income Tax	-	30,786	30,786	136,454
Site common - Harvest Dance	700,000	455,221	(244,779)	157,669
Site common - Spirit Dance	57,750	57,664	(86)	504,924
Project common	68,000	121,208	53,208	99,958
Total operating expenses	<u>825,750</u>	<u>664,925</u>	<u>(160,825)</u>	<u>899,795</u>
Excess of reserve fund revenues over (under) operating fund expenses	<u>\$ (545,294)</u>	<u>\$ (343,170)</u>	<u>\$ (119,525)</u>	<u>\$ (656,782)</u>