

# TIMOTHY, DeVOLT and COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
4099 McEWEN ROAD, SUITE 135  
FARMERS BRANCH, TEXAS 75244  
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To the Board of Directors  
Marine Creek Ranch Homeowners Association, Inc.

October 26, 2022

We have audited the financial statements of Marine Creek Ranch Homeowners Association, Inc. for the year ended December 31, 2020 and have issued our report thereon dated October 26, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you executed December 16, 2020. Professional standards also require that we communicate to you the following information related to our audit.

## **Significant Audit Findings**

### Qualitative Aspects of Accounting Practices

Management (the Board of Directors) is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Marine Creek Ranch Homeowners Association, Inc., are described in Footnote 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended December 31, 2020. We noted no transactions entered into by the association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management (the Board of Directors) and are based on management's (the Board of Directors') knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's (the Board of Directors') estimate of the allowance for doubtful accounts is based on historical revenue, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

## Qualitative Aspects of Accounting Practices: (Continued)

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The supplementary information dealing with the amounts allocated to the replacement fund for the year.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

### Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Management Representations

We have requested certain representations from the Board of Directors that are included in the management representation letter dated October 26, 2022.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Supplementary Information Accompanying the Audited Financial Statements

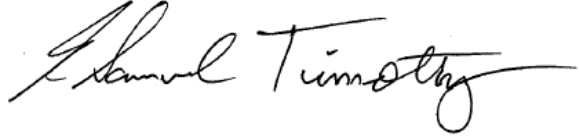
With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Required Supplementary Information

With respect to the supplementary information required by the Financial Accounting Standards Board, we applied certain limited procedures to the information, including inquiring of management about their methods of preparing the information; comparing the information for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements; and obtaining certain representations from management, including about whether the required supplementary information is measured and presented in accordance with prescribed guidelines.

This information is intended solely for the use of Marine Creek Ranch Homeowners Association, Inc. board of directors and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Samuel Timothy". The signature is written in black ink and is positioned below the text "Very truly yours,".

Timothy, DeVolt and Company, P.C.  
Dallas, Texas

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To the Board of Directors  
Marine Creek Ranch Homeowners Association, Inc.

October 26, 2022

In planning and performing our audit of the financial statements of Marine Creek Ranch Homeowners Association, Inc. as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Marine Creek Ranch Homeowners Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management (the board of directors) or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A fundamental concept in a good system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected. Although the size of the entity's accounting staff might make complete adherence to this concept more difficult, we believe that adequate steps have been taken to segregate incompatible duties.

Management (the board of directors) is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

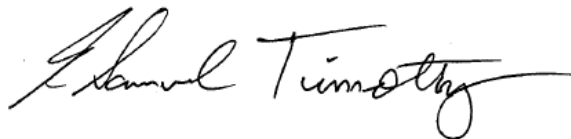
At times, management (the board of directors) may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management (the board of directors) is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally.

Specifically, management (the board of directors) is responsible for management decisions and functions: for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management (the board of directors) requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management (the board of directors) reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management (the board of directors) did not perform a detailed review of our work papers underlying the financial statements.

The existence of significant deficiencies or material weaknesses may already be known to management (the board of directors) and may represent a conscious decision by management (the board of directors) or those charged with governance to accept that degree of risk because of cost or other considerations. Management (the board of directors) is responsible for making decisions concerning costs and the related benefits. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management (the board of directors)'s decisions.

This communication is intended solely for the information and use of the association's board of directors, and others within the organization, and is not intended to be, and should not be, used by anyone other than those specified parties.

A handwritten signature in black ink, appearing to read "Samuel Timothy". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Timothy, DeVolt and Company, P.C.  
Dallas, Texas

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
 Adjusting Entries - Detailed  
 12/31/2020

Date:	6/23/2021
Prepared By:	JG
Reviewed By:	ST

Page 1

AJE #	G/L Acct.	Account Name	Debit	Credit
1	1315	Allowance for Doubtful Accounts		63,115.04
1	1350	Prepaid Insurance	933.84	
1	17200	Fixtures & Furnishings	1,607.51	
1	1510	Tools & Equipment	4,157.82	
1	1515	Pool / Pool Furniture	12,977.35	
1	1590	Accumulated Depreciation		13,938.02
1	2015	Accrued Expenses Payable		19,904.80
1	30700	Retained Earnings	77,281.34	
		To record 2019 audit AJEs		
2	1315	Allowance for Doubtful Accounts	17,405.24	
2	5570	Bad Debt Expense		17,405.24
		To adjust allowance for doubtful accounts 12/31/20		
3	5901	Depreciation Expense	3,106.89	
3	1590	Accumulated Depreciation		3,106.89
		To adjust 2020 depreciation expense		
4	2015	Accrued Expenses Payable	19,904.80	
4	7010	Electricity		402.86
4	7150	Water / Sewer		4,142.58
4	6060	Lawn Maint. - Contract		12,859.36
4	5510	Accounting / Audit		2,500.00
		To reverse 2019 audit accruals		
5	7010	Electricity	845.16	
5	7150	Water / Sewer	2,129.37	
5	5735	Legal & Professional	5,115.52	
5	6420	Fence / Gates / Walls	2,895.00	
5	5510	Accounting / Audit	5,000.00	
5	2015	Accrued Expenses Payable		15,985.05
		To adjust accrued expenses payable 12/31/20		
6	4030	Special Assessments		150.00
6	4055	Clubhouse Rental		58.00
6	5570	Bad Debt Expense	208.00	
		To reclass revenue debit balances		
7	6530	Porter Service - Contract	373.46	
7	6890	Pools / Jacuzzis - Contract		373.46
		To reclass April porter service booked to pool contract		
8	4090	Insurance Proceeds	27,434.78	
8	20690	Deferred insurance proceeds		27,434.78
		To defer insurance proceeds spent in 2021		
<b>Page Totals / Difference</b>			181,376.08	181,376.08

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
 Fixed Asset Analysis  
 12/31/2020

Date:	6/16/2021
Prepared By:	JG
Reviewed By:	

G/L #	Description	Acquisition Date	Basis	Beginning Balance	Additions	Retirements	Ending Balance
17500	Land		-	-	-	-	-
	TOTALS		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Furniture & Equipment	Acquisition Date	Basis	Useful Life	Depr. Method	Beginning Balance	Additions	Retirements	Ending Balance
Pool Furniture	1/16/2015	7,442.19	5	s/l	7,442.19	-	-	7,442.19
Video System Network	6/24/2015	1,650.81	5	s/l	1,650.81	-	-	1,650.81
Security System	5/29/2015	799.98	5	s/l	799.98	-	-	799.98
Dell Computer	1/30/2017	2,157.82	5	s/l	2,157.82	-	-	2,157.82
Pool Furniture	12/13/2017	9,271.35	5	s/l	9,271.35	-	-	9,271.35
Cameras	1/4/2018	2,000.00	5	s/l	2,000.00	-	-	2,000.00
Swivel Chairs	1/24/2018	1,607.51	5	s/l	1,607.51	-	-	1,607.51
Pool Furniture	5/1/2018	3,706.00	5	s/l	3,706.00	-	-	3,706.00
		-	5	s/l	-	-	-	-
TOTALS		<u>28,635.66</u>			<u>28,635.66</u>	<u>-</u>	<u>-</u>	<u>28,635.66</u>

Accumulated Depreciation	Acquisition Date	Basis	Useful Life	Depr. Method	Beginning Balance	Debit	Credit	Ending Balance
Pool Furniture	1/16/2015	7,442.19	5	s/l	7,376.95	-	65.24	7,442.19
Video System Network	6/24/2015	1,650.81	5	s/l	1,492.51	-	158.30	1,650.81
Security System	5/29/2015	799.98	5	s/l	734.68	-	65.30	799.98
Dell Computer	1/30/2017	2,157.82	5	s/l	1,259.21	-	431.56	1,690.77
Pool Furniture	12/13/2017	9,271.35	5	s/l	3,799.98	-	1,854.27	5,654.25
Cameras	1/4/2018	2,000.00	5	s/l	795.62	-	400.00	1,195.62
Swivel Chairs	1/24/2018	1,607.51	5	s/l	621.86	-	321.50	943.36
Pool Furniture	5/1/2018	3,706.00	5	s/l	1,236.69	-	741.20	1,977.89
	0 1/0/1900	-	5	s/l	-	-	-	-
TOTALS		<u>28,635.66</u>			<u>17,317.50</u>	<u>-</u>	<u>4,037.37</u>	<u>21,354.87</u>

NET VALUE - FIXED ASSETS 7,280.79





MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.

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DECEMBER 31, 2020

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Marine Creek Ranch Homeowners Association, Inc.  
Fort Worth, Texas

We have audited the accompanying financial statements of the Marine Creek Ranch Homeowners Association, Inc. which comprise the Balance Sheet as of December 31, 2020, and the related Statements of Revenues, Expenses and Changes in Fund Balance, and Cash Flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Marine Creek Ranch Homeowners Association, Inc. as of December 31, 2020, and the results of its operations, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Supplementary Information**

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 10 - 12 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.

Very truly yours,

*Timothy, DeVolt and Company, P.C.*

Timothy, DeVolt and Company, P.C.  
Certified Public Accountants  
October 26, 2022

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2020

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>CURRENT ASSETS</b>			
Cash, including interest-bearing deposits	\$ 212,798	\$ 117,372	\$ 330,170
Assessments receivable, less allowance for doubtful accounts of \$ 70,495	44,800		44,800
Inter-fund receivable/(payable)	82,523	(82,523)	-
Prepaid insurance	7,990		7,990
<b>TOTAL CURRENT ASSETS</b>	<b>348,111</b>	<b>34,849</b>	<b>382,960</b>
<b>PROPERTY AND EQUIPMENT, AT COST</b>			
Furniture & fixtures	22,027		22,027
Tools & equipment	6,609		6,609
Less: accumulated depreciation	(21,355)		(21,355)
<b>PROPERTY AND EQUIPMENT, NET</b>	<b>7,281</b>	<b>-</b>	<b>7,281</b>
<b>OTHER ASSETS</b>			
Utility deposits	600		600
<b>TOTAL OTHER ASSETS</b>	<b>600</b>	<b>-</b>	<b>600</b>
<b>TOTAL ASSETS</b>	<b>\$ 355,992</b>	<b>\$ 34,849</b>	<b>\$ 390,841</b>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 26,419	\$	\$ 26,419
Assessments received in advance	118,331		118,331
Deferred insurance proceeds	27,434		27,434
<b>TOTAL CURRENT LIABILITIES</b>	<b>172,184</b>	<b>-</b>	<b>172,184</b>
<b>TOTAL LIABILITIES</b>	<b>172,184</b>	<b>-</b>	<b>172,184</b>
<b>FUND BALANCES / (DEFICITS)</b>	<b>183,808</b>	<b>34,849</b>	<b>218,657</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 355,992</b>	<b>\$ 34,849</b>	<b>\$ 390,841</b>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

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

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 575,406	\$ 20,000	\$ 595,406
Late/collection charges	44,035		44,035
Miscellaneous owner fees	20,317		20,317
Other income	937		937
Keys / pool tags / gate remotes	25		25
Interest income		156	156
<b>TOTAL REVENUES</b>	<u>640,720</u>	<u>20,156</u>	<u>660,876</u>
OPERATING EXPENSES			
Landscaping & lawn maintenance	197,248	15,101	212,349
Utilities expense	101,897		101,897
Management fees - contract	84,000		84,000
Office supplies & admin. costs	51,715		51,715
Legal & professional fees	41,737		41,737
Repairs - other	13,186		13,186
Pool maintenance & repairs	23,806		23,806
Social events	15,393		15,393
Repairs - gates	13,680		13,680
Repairs - fence / gate / walls	12,339	3,166	15,505
Insurance expense	11,788		11,788
Porter service	6,525		6,525
Depreciation expense	4,037		4,037
Cable / telephone expense	1,792		1,792
Bad debt expense	208		208
Taxes - real property	105		105
<b>TOTAL OPERATING EXPENSES</b>	<u>587,232</u>	<u>18,267</u>	<u>605,499</u>
<b>EXCESS REVENUES / (EXPENSES)</b>	<u>\$ 53,488</u>	<u>\$ 1,889</u>	<u>\$ 55,377</u>
<b>BEGINNING FUND BALANCE / (DEFICIT)</b>	130,268	33,012	163,280
<b>INTER-FUND TRANSFERS</b>	52	(52)	-
<b>ENDING FUND BALANCE / (DEFICIT)</b>	<u>\$ 183,808</u>	<u>\$ 34,849</u>	<u>\$ 218,657</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

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

	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Excess revenues/ (expenses)	\$ 53,488	\$ 1,889	\$ 55,377
Add: Depreciation	4,037	-	4,037
Decrease / (Increase) in:			
Accounts receivable	46,409	-	46,409
Prepaid expenses	(298)	-	(298)
Increase / (Decrease) in:			
Accounts payable	6,514	-	6,514
Prepaid assessments	16,683	-	16,683
Miscellaneous payable	27,434	-	27,434
<b>NET CASH PROVIDED/ (USED) BY OPERATIONS</b>	<b>154,267</b>	<b>1,889</b>	<b>156,156</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Change in inter-fund borrowings	(52)	52	-
Inter-fund transfers	52	(52)	-
<b>NET CASH PROVIDED/ (USED) BY FINANCING</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET INCREASE/ (DECREASE) IN CASH</b>	<b>154,267</b>	<b>1,889</b>	<b>156,156</b>
<b>CASH BALANCE, BEGINNING OF YEAR</b>	<b>58,531</b>	<b>115,483</b>	<b>174,014</b>
<b>CASH BALANCE, END OF YEAR</b>	<b>\$ 212,798</b>	<b>\$ 117,372</b>	<b>\$ 330,170</b>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Cash paid during the year for:			
Federal Income Tax	\$ -	\$ -	\$ -
Interest Expense	\$ -	\$ -	\$ -

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

FOOTNOTE 1: The Marine Creek Ranch Homeowners Association, Inc. is a Texas non-profit corporation formed September 19, 2003. The purpose of the corporation is to operate and maintain the Marine Creek Ranch homeowner project. The project consists of approximately 1,600 lots and related common elements located in Fort Worth, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 26, 2022, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for the Marine Creek Ranch Homeowners Association, Inc. are maintained on the accrual basis of accounting.

**FUND ACCOUNTING:** The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction 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:** This fund is used to account for financial resources available for the general operations of the Association.

**REPLACEMENT FUND:** This fund is used to accumulate financial resources designated for future major repairs and replacements.

**CASH AND CASH EQUIVALENTS:** For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

**REVENUES:** Revenues are accrued semi-annually as the member assessments become due. Both the rate for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

(Intentionally Blank)

See the accompanying Independent Auditors' Report.

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

FOOTNOTE 3: (CONTINUED):

**REPLACEMENT FUND ASSESSMENT REVENUES:** The Association has applied ASC 605 revenue recognition whereby “rules based” specific guidance was defined for CIRAs rather than ASC 606 which provides “principles based” broad standards that do not include specific guidance for CIRAs. Furthermore, Replacement Fund Assessments cannot apply the following four tests required under ASC 606: (1.) Assessments are not related to a “customer or customers” (2.) Assessments do not have a performance obligation (3.) There is no transaction price for replacement expenses (4.) Cannot allocate Assessments to a future performance obligation. As a result, we do not believe that the application of ASC 606 would fairly present the financial position to the CIRA financial readers.

**EXPENDITURES:** Expenses are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures exceeding \$ 2,000 must be approved by a member of the Board of Directors. All other expenditures, projects and services are contracted using competitive bidding policies. The Board of Directors has the final approval on all contracts.

**ACCOUNTS RECEIVABLE:** Assessments receivable at the balance sheet date represent fees due from unit owners. The Association’s policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are ninety days or more delinquent. The Association has a lien right against each unit until all dues or assessments are paid, such liens being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings. Any excess assessments at year end are retained by the Association for use in the succeeding year.

**ALLOWANCE FOR DOUBTFUL ACCOUNTS:** The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economic conditions. At December 31, 2020, the allowance for doubtful accounts of \$ 70,495 represents approximately 61 % of the total accounts receivable and approximately 70 % of the outstanding amounts in excess of ninety days old.

**PROPERTY AND EQUIPMENT:** Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association’s financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes pool furniture and other equipment at cost and depreciates it using the straight-line method, over a five-year useful life. Depreciation expense for the year totaled \$ 4,037.

See the accompanying Independent Auditors’ Report.



MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

FOOTNOTE 3: (CONTINUED):

FEDERAL INCOME TAX: The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners Associations (Section 528) or (Section 277 Sub-Chapter A), dealing with corporations in general. Section 528 would impose a tax rate of 30 % to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Section 277 Sub-Chapter A imposes a tax rate of 21 % on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2020, the Association has elected to file under Section 528. Income tax for the year was \$ -0-.

Currently, the open tax years available to audit by the IRS are 2018, 2019 and 2020. However, the Association has not been notified that any of these tax return years have been selected for audit by the IRS.

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.

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance, and other services. These contracts are generally for a term of one year and may generally be canceled by either party giving 30 days' notice.

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See the accompanying Independent Auditors' Report.

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2020

FOOTNOTE 5: FAIR VALUE: The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements).

The carrying amounts reflected in the December 31, 2020 balance sheet for cash and cash equivalents approximate the respective fair values. All cash and cash equivalents, including money market accounts, are held in banks. The Association currently has no money market accounts with non-federally insured institutions.

FOOTNOTE 6: INSURANCE PROCEEDS: In 2020 the Association filed an insurance claim due to roof damage and received \$ 27,435 in insurance claim proceeds. Revenue recognition on these funds is being deferred until repairs are completed in 2021.

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See the accompanying Independent Auditors' Report.

MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE  
 MAJOR REPAIRS AND REPLACEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2020

REPLACEMENT FUND: The Association’s governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors, however, has chosen to establish a replacement fund and to accumulate funds for the estimated costs of future major repairs and replacements. For the year ended December 31, 2020, the Association added approximately \$ 20,000 before earnings of \$ 156 to the replacement fund. Accumulated cash funds, which aggregate approximately \$ 117,372 at December 31, 2020, are held in separate accounts and are generally not available for operating purposes.

In February of 2018, the Association received a reserve study by Reserve Advisors, Inc. to determine the amounts necessary for future repairs and replacements. Estimates of the remaining useful lives of components and the cost to replace various items have been estimated based upon the expertise of the engineering firm. These estimates are as follows:

COMPONENT	REPLACE. COST	REM. LIFE
<b>Site</b>		
Accent Lights, Monuments – Replacement	\$ 1,920	1
Asphalt Lot and Trail - Crack Seal, Stripe	5,000	0
Asphalt Lot and Trail - Overlay	55,475	3
Asphalt Lot and Trail - Seal Coat	11,095	0
Concrete Walkway Repairs (Periodic)	2,000	0
Metal Fencing - Clean/Prime/Paint (Periodic)	7,175	3
Metal Fencing Replacement	66,625	23
Metal Signage Replacement	1,600	8
Pilaster Repairs	300	3
Retaining Walls Repairs (Nom 2’)	4,320	5
Split Rail Fence Repairs	1,500	0
Split Rail Fence Replacement	47,574	8
Wood Fencing Stain	16,000	2
Wood Fencing Stain	8,000	0
<b>Building Exterior</b>		
Door Replacement	4,500	10
Gutter and Downspout Replacement	1,120	12
Lighting Fixture Replacement (Accent & Flood)	1,200	5
Soffit & Trim - Stain & Repair	3,000	2

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MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE  
 MAJOR REPAIRS AND REPLACEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2020

REPLACEMENT FUND: (CONTINUED):

COMPONENT	REPLACE. COST	REM. LIFE
<b>Building Interior - Continued</b>		
Interior Paint	\$ 2,000	2
Restroom Fixture Replacement	3,500	15
Restroom Partition Replacement	2,700	13
<b>Mechanical</b>		
Card Reader Pool Care Control Replacement	3,600	7
Ceiling Fan Replacement	2,100	4
Drinking Fountain Replacement	1,800	9
Electrical Panel Replacement - Cabana	5,000	33
Electrical Panel Replacement - Site	3,000	13
HVAC Replacement	6,000	0
Irrigation Controller Replacement	4,000	0
Pond Fountain & Equipment Replacement	5,000	5
Pool Filter Media Replacement	1,640	3
Pool Filter Replacement	1,600	11
Pool Filter Replacement (Large)	2,200	11
Pool Filter Replacement (2 HP)	3,000	0
Surveillance Camera Replacement	2,925	1
Surveillance Equipment Upgrade	2,000	9
Water Heater Replacement	900	2
Irrigation Pump Replacement (2 HP)	1,500	0
<b>Amenities</b>		
BBQ Grill Replacement	1,050	10
Decking Repairs - Concrete (Periodic)	2,463	3
Floating Dock Repairs	5,000	2
Office Equipment - Laptop Replacement	1,800	1
Office Equipment - Monitor Replacement	200	1
Office Equipment - Printer Replacement	290	1
Office Furniture - Couch, Misc.	2,600	3
Office Furniture - Desk and Chair Replacements	1,200	3
Park Bench Replacement	3,150	3
Pet Station Replacement	900	3

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MARINE CREEK RANCH HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE  
 MAJOR REPAIRS AND REPLACEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2020

REPLACEMENT FUND: (CONTINUED):

COMPONENT	REPLACE. COST	REM. LIFE
<b>Amenities – Continued</b>		
Picnic Table Replacement - Vinyl Coated Steel	\$ 4,000	8
Playground Equipment Replacement	35,000	18
Playground Mulch Replacement	900	0
Playground Plastic Retainer Replacement	600	10
Pool Coping to Decking Joint (Seal-O-Deck)	1,331	1
Pool Coping/Tile Replacement	6,050	21
Pool Furniture Replacement	10,000	4
Pool Re-Surface (Quartz)	31,200	511
Trash Receptacle Replacement – Metal	4,000	2
Wood Storage Shed Replacement	5,000	30
<b>Other</b>		
Reserve Study Updates	2,400	1
Contingency	2,000	0
<b>TOTALS</b>	<u>\$ 414,003</u>	

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments, or it may postpone needed repairs until funds are available.

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See the accompanying Independent Auditors' Report.