Financial Statements
December 31, 2019

Highlands Ranch Community Association, Inc.

(With Comparative Totals for 2018)

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Highlands Ranch Community Association, Inc.
Highlands Ranch, Colorado

We have audited the accompanying financial statements of Highlands Ranch Community Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2019, and the related statements of revenues, expenses, and changes in fund balances, functional expenses, 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 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 Highlands Ranch Community Association, Inc. as of December 31, 2019, 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.

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Report on Summarized Comparative Information

We have previously audited the Association's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 11, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedule of estimated future major repairs and replacements on page 18 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.

Eide Bailly LLP

Denver, Colorado
March 23, 2020

Highlands Ranch Community Association, Inc.

Balance Sheet

December 31, 2019

(with comparative totals for 2018)

	Administrative Fund			Recreation Fund						Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	Eliminations	2019	2018
Assets											
Cash and cash equivalents	$ 2,081,336	$ -	$ 1,064,775	$ 1,747,581	$ 693,174	$ 219,693	$ -	$ -	$ -	$ 5,806,559	$ 6,378,967
Investments	200,000	-	3,484,280	358,505	-	20,000	-	-	-	4,062,785	3,822,922
Assessments receivable, net	42,881	-	-	270,715	-	-	-	-	-	313,596	271,184
Accounts receivable, other	31,718	-	20,358	61,107	7,788	246	-	10,483	-	131,700	208,738
Prepaid expenses and other assets	45,466	-	-	229,859	-	9,340	-	-	-	284,665	339,928
Due from other funds	413,678	-	150,895	1,365,283	5,519	8,866	-	3	(1,944,244)	-	-
Right of use asset	18,178	-	-	72,712	-	-	-	-	-	90,890	-
Assets designated for reserves:											
Cash and cash equivalents	-	46,713	-	-	1,975,316	-	41,317	-	-	2,063,346	1,914,664
Investments	-	295,452	-	-	356,241	-	150,306	-	-	801,999	1,341,006
Interfund loan receivable	-	-	637,500	-	-	-	-	-	(637,500)	-	-
Assets held for bond principal and interest payments:											
Cash and cash equivalents	-	-	-	-	-	-	-	5,312,118	-	5,312,118	4,252,901
Investments	-	-	-	-	-	-	-	853,226	-	853,226	1,869,660
Property, plant and equipment, net	38,156	252,525	-	-	-	-	752,428	35,621,681	-	36,664,790	36,804,120
Total assets	$ 2,871,413	$ 594,690	$ 5,357,808	$ 4,105,762	$ 3,038,038	$ 258,145	$ 944,051	$ 41,797,511	$ (2,581,744)	$ 56,385,674	$ 57,204,090
Liabilities and Fund balances											
Liabilities											
Accounts payable and accrued expenses	$ 131,997	$ -	$ -	$ 304,967	$ 71,188	$ 72,508	$ -	$ 78,941	$ -	$ 659,601	$ 903,741
Accrued payroll and related items	89,745	-	-	482,897	-	17,212	-	-	-	589,854	544,862
Assessments paid in advance	286,239	-	-	1,471,032	-	-	-	-	-	1,757,271	2,638,756
Deferred revenue	35,132	-	-	772,915	-	55,038	-	-	-	863,085	799,541
Due to other funds	1,278,655	14,726	-	416,084	18,295	65,588	150,896	-	(1,944,244)	-	-
Lease liability	17,353	-	-	69,410	-	-	-	-	-	86,763	-
Interfund loan payable	-	-	-	-	637,500	-	-	-	(637,500)	-	-
Bonds payable, net	-	-	-	-	-	-	-	15,073,221	-	15,073,221	17,315,017
Total liabilities	1,839,121	14,726	-	3,517,305	726,983	210,346	150,896	15,152,162	(2,581,744)	19,029,795	22,201,917
Fund balances without donor restrictions											
Undesignated	780,648	237,799	4,720,308	588,457	-	47,799	601,532	20,480,005	-	27,456,548	25,047,075
Designated for special projects	251,644	-	-	-	693,174	-	-	-	-	944,818	576,867
Designated for reserves	-	342,165	637,500	-	1,617,881	-	191,623	-	-	2,789,169	3,255,670
Held for bond principal and interest payments	-	-	-	-	-	-	-	6,165,344	-	6,165,344	6,122,561
Total fund balances	1,032,292	579,964	5,357,808	588,457	2,311,055	47,799	793,155	26,645,349	-	37,355,879	35,002,173
Total liabilities and fund balances	$ 2,871,413	$ 594,690	$ 5,357,808	$ 4,105,762	$ 3,038,038	$ 258,145	$ 944,051	$ 41,797,511	$ (2,581,744)	$ 56,385,674	$ 57,204,090

Highlands Ranch Community Association, Inc.

Statement of Revenues, Expenses and Changes in Fund Balances

Year Ended December 31, 2019

(with comparative totals for 2018)

	Administrative Fund			Recreation Fund						Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	Eliminations	2019	2018
Without Donor Restrictions											
Revenues											
Homeowner assessments and fees	$ 2,531,110	$ -	$ -	$ 16,903,353	$ -	$ -	$ -	$ -	$ -	$ 19,434,463	$ 18,816,847
Recreation programs	-	-	-	5,182,086	-	478,664	-	-	-	5,660,750	5,391,565
Facility operations	-	-	-	925,033	-	9,875	-	-	(68,384)	866,524	844,082
Community events	436,993	-	-	29,100	-	-	-	-	-	466,093	466,077
Management fee	405,128	-	-	282,019	-	-	-	-	(687,147)	-	-
Interest and other revenue	129,003	3,480	126,056	9,263	62,873	28,210	2,798	149,262	(16,459)	494,486	535,243
Total revenues	3,502,234	3,480	126,056	23,330,854	62,873	516,749	2,798	149,262	(771,990)	26,922,316	26,053,814
Expenses											
Salaries, employee benefits and taxes	1,612,860	-	-	11,728,366	-	625,244	-	-	-	13,966,470	13,248,784
Supplies and contract labor	330,115	2,397	-	1,208,041	29,595	134,799	-	-	-	1,704,947	1,644,830
Professional services	604,464	-	-	317,647	-	-	-	-	-	922,111	544,569
Community advertising and marketing	20,385	-	-	58,319	-	-	-	-	-	78,704	89,997
Information technology	181,766	-	-	394,307	-	-	-	-	-	576,073	467,446
Office expenses	318,566	-	-	419,048	-	4,137	-	15	-	741,766	773,408
Insurance	49,186	-	-	290,506	-	28,523	-	-	-	368,215	350,123
Depreciation	-	59,095	-	-	-	-	142,365	2,658,134	-	2,859,594	2,703,811
Interest	-	-	-	-	16,459	-	-	1,156,447	(16,459)	1,156,447	1,325,957
Occupancy and utilities	74,394	-	-	1,934,280	1,426	32,804	-	-	(68,384)	1,974,520	1,857,435
Conferences, meetings and travel	21,501	-	-	27,537	-	24,936	-	-	-	73,974	63,487
Management fee	282,019	-	-	405,128	-	-	-	-	(687,147)	-	-
Other operating expenses	20,423	-	-	45,588	-	751	-	-	-	66,762	130,927
Total expenses	3,515,679	61,492	-	16,828,767	47,480	851,194	142,365	3,814,596	(771,990)	24,489,583	23,200,774
Losses											
Loss on asset disposal	-	(10,263)	-	-	-	-	(11,651)	(57,113)	-	(79,027)	(236,164)
Total losses	-	(10,263)	-	-	-	-	(11,651)	(57,113)	-	(79,027)	(236,164)
Excess (deficiency) of revenues over expenses	(13,445)	(68,275)	126,056	6,502,087	15,393	(334,445)	(151,218)	(3,722,447)	-	2,353,706	2,616,876
Transfers	(152,547)	152,547	(66,334)	(6,363,481)	14,887	392,000	76,009	5,946,919	-	-	-
Change in fund balance	(165,992)	84,272	59,722	138,606	30,280	57,555	(75,209)	2,224,472	-	2,353,706	2,616,876
Fund balance, beginning of year	1,198,284	495,692	5,298,086	449,851	2,280,775	(9,756)	868,364	24,420,877	-	35,002,173	32,385,297
Fund balance, end of year	$ 1,032,292	$ 579,964	$ 5,357,808	$ 588,457	$ 2,311,055	$ 47,799	$ 793,155	$ 26,645,349	$ -	$ 37,355,879	$ 35,002,173

	2019			
	Recreation and Community Programs	Management and General	Total	2018
Salaries, employee benefits and taxes	$ 12,364,429	$ 1,602,041	$ 13,966,470	$ 13,248,784
Supplies and contract labor	1,372,435	332,512	1,704,947	1,644,830
Professional services	317,647	604,464	922,111	544,569
Community advertising and marketing	58,319	20,385	78,704	89,997
Information technology	394,307	181,766	576,073	467,446
Office expenses	423,200	318,566	741,766	773,408
Insurance	319,029	49,186	368,215	350,123
Depreciation	2,800,499	59,095	2,859,594	2,703,811
Interest	1,156,447	-	1,156,447	1,325,957
Occupancy and utilities	1,900,126	74,394	1,974,520	1,857,435
Conferences, meetings and travel	52,473	21,501	73,974	63,487
Other operating expenses	46,339	20,423	66,762	130,927
Total expenses	$ 21,205,250	$ 3,284,333	$ 24,489,583	$ 23,200,774

Highlands Ranch Community Association, Inc.
Statement of Cash Flows
Year Ended December 31, 2019
(with comparative totals for 2018)

	Administrative Fund			Recreation Fund					Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	2019	2018
Cash flows from operating activities										
Excess (deficiency) of revenues over expenses	$ (13,445)	$ (68,275)	$ 126,056	$ 6,502,087	$ 15,393	$ (334,445)	$ (151,218)	$ (3,722,447)	$ 2,353,706	$ 2,616,876
Adjustment to reconcile excess (deficiency) of revenues over expenses to net cash from (used for) operating activities										
Depreciation expense	-	59,095	-	-	-	-	142,365	2,658,134	2,859,594	2,703,811
Loss on asset disposal	-	10,263	-	-	-	-	11,651	57,113	79,027	236,164
Interest expense attributable to amortization of bond issuance costs	-	-	-	-	-	-	-	53,204	53,204	60,724
Bad debt expense	31	-	-	-	-	-	-	-	31	33,658
Accretion of lease liability	(825)	-	-	(3,302)	-	-	-	-	(4,127)	-
(Increase) decrease in operating assets										
Assessments receivable, net	(11,017)	-	-	(31,426)	-	-	-	-	(42,443)	(38,002)
Accounts receivable, other	4,630	-	1,489	24,166	38,502	6,892	-	1,359	77,038	(122,882)
Prepaid expenses and other assets	23,999	-	-	27,310	-	3,954	-	-	55,263	15,915
Increase (decrease) in operating liabilities										
Accounts payable and accrued expenses	(62,150)	(6,001)	(150,893)	(226,099)	13,332	(20,535)	-	(11,531)	(463,877)	477,094
Accrued payroll and related items	27,365	-	-	232,206	-	1,821	-	-	261,392	(161,105)
Assessments paid in advance	31,698	-	-	(913,183)	-	-	-	-	(881,485)	(103,032)
Deferred revenue	(25,909)	-	-	99,123	-	(9,670)	-	-	63,544	5,661
Net cash from (used for) operating activities	(25,623)	(4,918)	(23,348)	5,710,882	67,227	(351,983)	2,798	(964,168)	4,410,867	5,724,882
Cash flows from investing activities										
Net (purchases) sales of investments	(200,000)	(294,304)	(18,527)	(1,336)	982,954	(20,000)	(149,643)	1,016,434	1,315,578	2,193,888
Purchases of property and equipment	(38,156)	(33,813)	-	-	-	-	(66,012)	(2,603,751)	(2,741,732)	(3,010,932)
Net cash from (used for) investing activities	(238,156)	(328,117)	(18,527)	(1,336)	982,954	(20,000)	(215,655)	(1,587,317)	(1,426,154)	(817,044)
Cash flows from financing activities										
Payment of accounts payable for property and equipment	-	(2,545)	-	-	-	-	-	(51,677)	(54,222)	(913,392)
Bond principal payments	-	-	-	-	-	-	-	(2,295,000)	(2,295,000)	(2,130,000)
Net borrowing and transfers among funds	(1,156,050)	107,728	83,801	(5,387,317)	(138,951)	451,499	81,911	5,957,379	-	-
Net cash from (used for) financing activities	(1,156,050)	105,183	83,801	(5,387,317)	(138,951)	451,499	81,911	3,610,702	(2,349,222)	(3,043,392)
Net change in cash, cash equivalents, and restricted cash	(1,419,829)	(227,852)	41,926	322,229	911,230	79,516	(130,946)	1,059,217	635,491	1,864,446
Cash, cash equivalents, and restricted cash, beginning of year	3,501,165	274,565	1,022,849	1,425,352	1,757,260	140,177	172,263	4,252,901	12,546,532	10,682,086
Cash, cash equivalents, and restricted cash, end of year	$ 2,081,336	$ 46,713	$ 1,064,775	$ 1,747,581	$ 2,668,490	$ 219,693	$ 41,317	$ 5,312,118	$ 13,182,023	$ 12,546,532
Cash and cash equivalents	$ 2,081,336	$ -	$ 1,064,775	$ 1,747,581	$ 693,174	$ 219,693	$ -	$ -	$ 5,806,559	$ 6,378,967
Cash and cash equivalents designated for reserves	-	46,713	-	-	1,975,316	-	41,317	-	2,063,346	1,914,664
Cash and cash equivalents held for bond principal and interest payments	-	-	-	-	-	-	-	5,312,118	5,312,118	4,252,901
Total cash, cash equivalents, and restricted cash	$ 2,081,336	$ 46,713	$ 1,064,775	$ 1,747,581	$ 2,668,490	$ 219,693	$ 41,317	$ 5,312,118	$ 13,182,023	$ 12,546,532
Supplemental disclosure of cash flow information										
Cash paid during the year for interest	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,117,164	$ 1,117,164	$ 1,278,645
Cash paid during the year for operating leases	$ 10,146	$ -	$ -	$ 40,583	$ -	$ -	$ -	$ -	$ 50,729	$ -
Supplemental disclosure of non-cash investing activity										
Property and equipment purchases included in accounts payable	$ -	$ 8,546	$ -	$ -	$ -	$ -	$ -	$ 49,013	$ 57,559	$ 205,115
Right-of-use assets obtained in exchange for lease liabilities	$ 18,178	$ -	$ -	$ 72,712	$ -	$ -	$ -	$ -	$ 90,890	$ -

Note 1 - Principal Activity and Significant Accounting Policies

Highlands Ranch Community Association, Inc. (the Association, we, us, our) was incorporated in September 1981 as a nonprofit corporation to enhance the quality and value of all property that becomes part of the Community Association Area, to act as manager of Association-owned properties, and to perform functions for the benefit of owners of privately owned sites within the Community Association Area. The Community Association Area, located in what is known as Highlands Ranch, contains approximately 22,000 acres located in Douglas County, Colorado. As of December 31, 2019, the membership consisted of approximately 31,300 privately owned sites.

The Association owns and operates four recreation centers, providing year-round youth and adult fitness programs and educational opportunities, administers architectural control and covenant enforcement activities, manages the Backcountry Wilderness Area (the Backcountry), and hosts over 100 community events per year.

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total, but not by fund. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with the Association's audited financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Adoption of FASB Accounting Standards Updates

Effective January 1, 2019, the Association adopted the new lease accounting guidance in Accounting Standards Update No. 2016-02 (the Standard), *Leases (Topic 842)*. The Association elected to apply the guidance as of January 1, 2019, the beginning of the adoption period. The comparative financial information and disclosures presented are in accordance with the legacy standard, ASC 840. The standard requires the recognition of right-of-use assets and lease liabilities for lease contracts with terms greater than 12 months. Operating lease costs are recognized in the income statement as a single lease cost and finance lease costs are recognized in two components, interest expense and amortization expense. The Association has elected the package of practical expedients permitted in ASC Topic 842. Accordingly, the Association accounted for its existing leases as either finance or operating lease under the new guidance, without reassessing (a) whether the contract contains a lease under ASC Topic 842, (b) whether classification of the operating lease would be different in accordance with ASC Topic 842, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in ASC Topic 842 at lease commencement.

Fund Accounting

We have elected certain guidelines for governing our financial activities. To ensure observance of limitations and restrictions on the use of financial resources, we maintain our accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the financial statements in the following funds and subsidiary funds established according to their nature and purpose:

- Administrative Fund
  - Operating Fund
  - Reserve Fund
- Open Space Conservation Agreement Fund (OSCA Fund)
- Recreation Fund
  - Operating Fund
  - Reserve Fund
  - Backcountry Operating Fund
  - Backcountry Reserve Fund
  - Debt Service and Plant Fund

Operating funds account for all current operating transactions of the Association. Reserve funds account for member capital contributions, which are accumulated in separate bank accounts to provide for the future repair and replacement of common areas. The debt service and plant fund accounts for the recreational property and equipment and related debt. The OSCA fund accounts for all transactions related to the agreement with Shea Homes Limited Partnership (Shea Homes), the declarant.

As of December 31, 2019, the Association has no fund balances with donor restrictions.

Cash and Cash Equivalents

We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents.

Investments

Investments are comprised of certificates of deposit that are initially recorded at cost. We have demonstrated the intent and ability to hold to maturity all investments purchased. Accordingly, all investments are classified as "held-to-maturity" for financial statement purposes and reported at amortized cost in the balance sheet. Any gain or loss in the fair market value of the securities subsequent to their purchase is not recognized unless such gain or loss is realized due to the sale of any securities prior to maturity. Any unrealized loss would be recognized in the event of a change in Board designation of these investments to other than held-to-maturity. Interest income is recognized when earned.

Assessments Receivable

Assessment fees are billed quarterly to all privately-owned sites based on annually budgeted amounts, which consider formulas contained in the Community Declaration. Under Colorado law, we have a statutory right to lien members' properties to ensure payment of assessments due. We determine the allowance for uncollectable assessments receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Assessments receivable are written off when deemed uncollectable. At December 31, 2019, the allowance was $38,082.

Accounts Receivable, Other

Other accounts receivable are comprised of interest and other miscellaneous receivables. We determine the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2019, no allowance for accounts receivable, other was considered necessary.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets consist of expenses paid in advance but not yet incurred, and inventory of recreation center merchandise, which is carried at the lower of cost or net realizable value using the first-in, first-out method.

Assets Designated for Reserves

Assets designated for reserves are comprised of accumulated funds designated by the Board of Directors to ensure the availability of funds for future major repairs and replacements of common areas, and for general operations when needed.

Assets Held for Bond Principal and Interest Payments

Under the terms of our bond agreements, we are required to maintain a bond reserve fund equal to the scheduled maximum annual principal and interest payments on the bonds ($5,254,166 at December 31, 2019). Additional assets held for bond principal and interest payments include funds set aside in anticipation of mandatory sinking fund redemption requirements and bond maturities.

Property, Plant and Equipment

We capitalize all common real property to which we have title or other evidence of ownership and the legal right and/or ability either to dispose of the property at the discretion of the Board of Directors for cash or claims to cash, and retain the proceeds therefrom, or to use the property to generate significant cash flows from members on the basis of usage.

We record property and equipment additions over $3,000 with estimated useful lives greater than one year at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from two to thirty-nine years. Common areas are generally restricted to use by Association members, their tenants, and guests. We are responsible for the preservation and maintenance of the common areas. Replacements and improvements to the real property and common areas are capitalized at cost. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of revenues, expenses and changes in fund balances. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

We review the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2019.

Under the terms of the Open Space Conservation Agreement (the OSCA Agreement) between the Association, Douglas County, and Shea Homes, we received 7,363 acres of land for use as open space or other permitted recreational, cultural, or educational purposes pursuant to the OSCA Plan. The land, known as the Backcountry, is not reflected as an asset in our financial statements because it is not severable and saleable at the Board's discretion without member delegates' approval, nor is it used to generate significant cash flows from the members of the Association.

Revenue and Revenue Recognition

We recognize revenue from homeowner assessments over the assessment period, which is generally one year, during which time members have continuous access to four recreation centers and common areas, architectural control and covenant enforcement, other services, and certain community events. The assessments are used to cover the costs of operating the Association, to maintain the common elements and improvements, and to provide for the repair and replacement of facilities. Assessments for 2019 were $152 per quarter/$608 per year per site. Starting January 1, 2020, the assessments increased to $155.72 per quarter/$622.88 per year per site. Privately-owned sites designated for commercial use are billed for administrative purposes only.

Recreation programs, facility rentals, product sales and special community events revenue is recognized when the programs, rentals, product sales or special community events take place.

Homeowner assessments paid in advance are deferred to the assessment period to which they relate. All other amounts paid in advance are deferred to the period in which the underlying program, rental, product delivery or special community event takes place. Due to the nature and timing of the performance and/or transfer of services and products, substantially all deferred revenue at December 31 of each year is earned in the following year.

Advertising Costs

Advertising costs are expensed as incurred and totaled $78,704 during the year ended December 31, 2019.

Functional Allocation of Expenses

The costs of program and supporting services have been reported by both nature and function in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include depreciation and occupancy and utilities, which are allocated on a square footage basis, as well as salaries, employee benefits and taxes and insurance, which are allocated based on estimates of time and effort.

Income Taxes

The Association is organized as a Colorado nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(c)(4) of the Internal Revenue Code. We are annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, we are subject to income tax on net income that is derived from business activities that are unrelated to our exempt purpose, and we file an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. Unrelated business income primarily represents advertising revenue associated with our activity guide. We did not incur any material income tax expense from these unrelated activities for the year ended December 31, 2019.

We believe that we have appropriate support for any tax positions taken affecting our annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. We will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred. Our Form 990-T and related state income tax filings are no longer subject to tax examinations for years before 2016.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amount of 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 and those differences could be material.

Financial Instruments and Credit Risk

We manage deposit concentration risk by placing cash and investments with financial institutions we believe to be creditworthy. Amounts on deposit at any single financial institution are limited so as not to exceed insurance limits. To date, we have not experienced losses in any of these accounts. Credit risk associated with assessments, and accounts receivable is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from homeowners, whose properties are subject to statutory limit to ensure payment.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported fund balances.

Note 2 - Liquidity and Availability

The following table reflects our financial assets as of December 31, 2019, reduced by amounts that are not available to meet general expenditures within one year of the balance sheet date, including amounts held for (1) Administrative Reserve, Recreation Reserve, Backcountry Reserve, capital improvement and special projects; (2) investments with maturities greater than one year; and (3) amounts held to meet future bond repayment obligations.

Cash and cash equivalents (a)	$ 5,061,741
Investments (b)	1,723,604
Assessments receivable, net	313,596
Accounts receivable, other	131,700
Cash and cash equivalents held for bond principal and interest payments in 2020	5,254,166
	$ 12,484,807

(a) Net of $944,818 designated for special projects.
(b) Certificates of deposit maturing in 2020 not designated for reserves or held for bond principal and interest payments.

We plan for expenditures by financial statement line item on an annual basis as part of the budget process. The annual budget is drafted with input from all of the Association’s departments, and follows guidelines set forth by the Board of Directors each year, including having a balanced budget. The annual budget process includes consideration of amounts required for the upcoming year for operating and reserve expenditures, including bond repayment obligations of annual principal and interest. Following the annual budget adoption, we invest funds based on our fund management and reserve study policy, which allows investment in low-risk financial instruments such as certificates of deposit and money market funds.

Designated reserve funds are held in separate bank accounts and generally are unavailable for expenditure for normal operations. During the year ended December 31, 2019, the Board of Directors has designated an additional $825,000 for minor capital and other projects, some of which were completed during the year, resulting in the year-end balance of $944,818. The funds are held in separate bank accounts and generally are unavailable for expenditure for normal operations.

Note 3 - Investments

Investments are classified as held-to-maturity and consist entirely of certificates of deposit having a gross amortized cost of $5,718,000 which approximates their estimated fair value at December 31, 2019.

Held-to-maturity investments mature as follows at December 31, 2019:

Within one year	$ 3,290,848
One to five years	2,427,162
	$ 5,718,010

The Board of Directors has designated $801,999 of the investment balance for reserves for future operations and replacements, and $853,226 of the investment balance is being held for bond principal and interest payments.

Note 4 - Property, Plant and Equipment

Property and equipment consists of the following at December 31, 2019:

	Administrative Fund		Recreation Fund		
	Operating	Reserves	Backcountry Reserves	Debt Service and Plant	Total
Buildings and improvements	$ -	$ -	$ 377,473	$ 66,646,401	$ 67,023,874
Furniture and equipment	-	609,696	972,907	5,501,650	7,084,253
Land	-	-	-	1,925,000	1,925,000
	-	609,696	1,350,380	74,073,051	76,033,127
Less accumulated depreciation	-	(417,322)	(597,952)	(38,982,504)	(39,997,778)
	-	192,374	752,428	35,090,547	36,035,349
Construction in progress	38,156	60,151	-	531,134	629,441
	$ 38,156	$ 252,525	$ 752,428	$ 35,621,681	$ 36,664,790

Note 5 - Leases

The Association leases certain copiers and vehicles for various terms under long-term, non-cancelable operating lease agreements. The leases expire at various dates through 2024. The Association included in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The weighted-average discount rate is based on the discount rate implicit in the lease, or if the implicit rate is not readily determinable from the lease, then the Association estimates an applicable incremental borrowing rate. The incremental borrowing rate is estimated using the Association's applicable borrowing rates and the contractual lease term.

The Association has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. Lease payments for short-term leases are recognized on straight-line basis.

The Association elected the practical expedient to not separate lease and non-lease components for certain copiers and vehicles.

The Association's weighted-average remaining lease term and weight-average discount rate for operating leases is 3.52 years and 5.36%, respectively. The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below as of December 31, 2019.

2020	$ 38,244
2021	34,679
2022	7,200
2023	3,984
2024	2,656
Present value of lease liabilities	$ 86,763

Note 6 - Interfund Agreement and Transactions

We account for transactions that impact multiple funds by recognizing amounts due to other funds and amounts due from other funds in the balance sheet. These transactions are cash settled on a regular basis, are non-interest bearing and generally are short-term in nature. In April 2014, we entered into a $1,500,000 OSCA Loan Agreement (the OSCA Loan), between the OSCA Fund and the Recreation Reserve Fund, which matures in January 2024. The proceeds of the OSCA Loan were utilized to fund an energy savings project and associated repair and replacement costs. The OSCA Loan bears interest at a rate commensurate with the highest current interest rate for a one-year certificate of deposit available to us through Morgan Stanley as of January 1 and July 1 of each calendar year (2.35% at December 31, 2019), with interest and principal payable quarterly. The Recreation Reserve Fund may prepay the OSCA Loan at any time without penalty. The balance outstanding at December 31, 2019 is $637,500.

Note 7 - Bonds Payable

Bonds payable consist of the following at December 31, 2019:

Series 1999 Homeowners Assessment Revenue Bonds, dated June 1, 1999 (a) (c)	$ 2,351,590
Series 2004 Homeowners Assessment Revenue Bonds, dated August 19, 2004 (b) (c)	12,721,631
	$ 15,073,221

(a) Payable in annually increasing amounts through 2020, with interest due semi-annually at 7.635%, net of unamortized bond issuance costs of $8,410 (based upon an effective interest rate of 8.1%).
(b) Payable in annually increasing amounts through 2024, with interest due semi-annually at 5.95%, net of unamortized bond issuance costs of $118,369 (based upon an effective interest rate of 6.24%).
(c) The bonds are callable in whole or in part at any time, are subject to a call premium based on the net present value of the future cash flows of the bonds called, discounted using a defined market rate at the time of redemption. The bonds and interest are insured as to repayment by MBIA Insurance Corporation.

We are subject to various bond covenants, including a requirement that the Association make deposits equal to one-fourth of the annual principal and interest due for the fiscal year to the Bond Fund each quarter. The fourth quarter deposit must be made prior to December 1st each year.

Future bond principal and interest payments, and amortization of bond issuance costs, are as follows for the years ending December 31:

	Principal	Interest	Total
2020	4,310,000	944,166	5,254,166
2021	2,320,000	647,955	2,967,955
2022	2,580,000	509,915	3,089,915
2023	2,850,000	356,405	3,206,405
2024	3,140,000	186,830	3,326,830
Total	$ 15,200,000	$ 2,645,271	$ 17,845,271

Note 8 - Revenue from Contracts with Customers

The following table provides information about significant changes in the assessments paid in advance and deferred revenue for the year ended December 31, 2019:

Assessments paid in advance, beginning of year	$ 2,638,756
Homeowner assessments and fees revenue recognized	19,434,463
Collections of homeowner assessments and fees	(20,315,948)
Assessments paid in advance, end of year	$ 1,757,271

Deferred revenue, beginning of year	$ 799,541
Recreational programs, facility operations, and community events revenue recognized	6,993,367
Collections of program, facility, and community fees	(6,929,823)
Deferred revenue, end of year	$ 863,085

Note 9 - Future Major Repairs and Replacements

The Association's Community Declaration requires the accumulation of funds for future major repairs and replacements of common areas, and for general operations to ensure the availability of funds when needed. We fund these reserves on a monthly basis. We annually review the reserve funding program as part of its budgeting process.

We retained an engineering firm to perform a study of our recreational buildings and equipment in 2014. Based on this analysis, we have accumulated funds totaling $2,331,557 in the Recreation Reserve Fund, $342,165 in the Administrative Reserve Fund, and $191,623 in the Backcountry Reserve Fund for the future repair and replacement of recreation facilities and equipment, future repair and replacement of administrative office equipment and backcountry trails and property improvements, respectively. We have established funding requirements of $2,669,600, $48,331 and $159,500 in the 2020 Recreational Reserve Fund budget, the 2020 Administrative Reserve Fund budget and the 2020 Backcountry Reserve Fund budget, respectively.

The reserve funds are being accumulated based upon estimated future costs. Actual expenditures vary from those estimates and variations may be material. Therefore, amounts accumulated in the Recreation Reserve Fund, the Administrative Reserve Fund and Backcountry Reserve Fund may not be adequate to meet future needs. If additional funds are needed, we have the right, subject to member delegates' approval, to pass special assessments or delay major repairs and replacements until funds are available.

Note 10 - Retirement Plan

We sponsor a tax-deferred defined contribution retirement plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all employees meeting the eligibility requirements. The plan provides that employees who have attained the age of 21 and completed either six months of continuous service in a full-time designated benefited position or completed 1,000 hours of service in an eligibility period in a part-time position, may voluntarily contribute part of their earnings to the Plan, up to the maximum contribution allowed by the IRS. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. During the year ended December 31, 2019, we matched employee voluntary contributions dollar-for-dollar up to 5%, resulting in total contributions to the Plan of $296,534 Employees' voluntary contributions are immediately vested; our contributions vest at 20% per year of participation.

Note 11 - Contingency

The Association may become involved in claims and pending litigation arising in the normal course of operations. The Association is currently not involved in any litigation considered by management to have a potentially material adverse effect on the Association's financial position.

Note 12 - Subsequent Events

Subsequent to year-end, the Association has been negatively impacted by the effects of the world-wide coronavirus pandemic. We are closely monitoring our operations, liquidity, and capital resources and are actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Association's financial position is not known.

We have evaluated subsequent events through March 23, 2020, the date the financial statements were issued.

Required Supplementary Information
December 31, 2019

Highlands Ranch Community Association, Inc.

We commissioned a study in 2014 by an independent engineering firm to estimate the remaining useful lives and the replacement costs of the components of recreational common property. The engineering firm assessed the condition of all common area components, estimated replacement costs and remaining lives to develop a funding plan for such future costs. A funding plan has been established using a pooled-funding method with provisions for inflation of 2.875% and interest earnings of 0.35%. Historically, the Association has commissioned a study every three to five years. During the intervening periods, the Association adjusts the most recent estimate of current replacement costs by applying the inflation index built into the study in addition to obtaining bids for current-year projects. The next study is scheduled to take place in 2021.

The following table is based on the 2014 study, adjusted for inflation, and presents significant information about the components of the buildings, furniture and equipment, and assets designated for reserves as of December 31, 2019.

			Assets Designated for Reserves at December 31, 2019		
Major Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Recreation Reserve Fund	Administrative Reserve Fund	Backcountry Fund
Amenities	0-30	$ 5,448,592			
Façade	0-40	865,322			
Fire and safety	0-20	160,125			
Flatwork	N/A	165,591			
Interiors	0-30	9,977,623			
Landscape and appurtenances	0-30	557,087			
Mechanical	0-30	6,783,009			
Paving and curbing	0-20	1,613,667			
Roofing	0-25	1,643,054			
Miscellaneous	0-25	1,953,861			
Total		$ 29,167,932	$ 2,331,557	$ 342,165	$ 191,623
Replacement Costs by Location					
Northridge Recreation Center		$ 10,895,917			
Southridge Recreation Center		4,680,765			
Eastridge Recreation Center		8,273,374			
Westridge Recreation Center		4,231,835			
Administrative office		744,060			
Backcountry		341,981			
Total		$ 29,167,932	$ 2,331,557	$ 342,165	$ 191,623