



Financial Statements  
December 31, 2020

# Highlands Ranch Community Association, Inc.

(With Comparative Totals for 2019)

Highlands Ranch Community Association, Inc.

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December 31, 2020

(with comparative totals for 2019)

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CPAs & BUSINESS ADVISORS

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Highlands Ranch Community Association, Inc. (the Association), which comprise the balance sheet as of December 31, 2020, 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, 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 Summarized Comparative Information**

We have previously audited the Association's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 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.



Denver, Colorado  
April 8, 2021

Highlands Ranch Community Association, Inc.  
 Balance Sheet  
 December 31, 2020  
 (with comparative totals for 2019)

	Administrative Fund			Recreation Fund					Totals		
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	Eliminations	2020	2019
<b>Assets</b>											
Cash and cash equivalents	\$ 3,795,868	\$ -	\$ 2,791,835	\$ 2,196,397	\$ 1,320,830	\$ 335,419	\$ -	\$ -	\$ -	\$ 10,440,349	\$ 5,806,559
Investments	-	-	1,932,642	358,505	-	-	-	-	-	2,291,147	4,062,785
Assessments receivable, net	1,753	-	-	273,257	-	-	-	-	-	275,010	313,596
Accounts receivable, other	766	-	20,359	48,165	7,463	2,959	-	2,824	-	82,536	131,700
Prepaid expenses and other assets	39,312	-	-	253,223	-	14,816	327	-	-	307,678	284,665
Due from other funds	52,338	-	150,894	1,820,973	904	9,075	-	4,877	(2,039,061)	-	-
Right-of-use asset	14,182	-	-	56,727	-	-	-	-	-	70,909	90,890
Assets designated for reserves:											
Cash and cash equivalents	-	141,752	-	-	3,089,466	-	70,390	-	-	3,301,608	2,063,346
Investments	-	200,485	-	-	111,241	-	135,449	-	-	447,175	801,999
Interfund loan receivable	-	-	487,500	-	-	-	-	-	(487,500)	-	-
Assets held for bond principal and interest payments:											
Cash and cash equivalents	-	-	-	-	-	-	-	3,264,427	-	3,264,427	5,312,118
Investments	-	-	-	-	-	-	-	528,226	-	528,226	853,226
Property, plant and equipment, net	-	288,306	-	-	-	-	699,375	34,428,002	-	35,415,683	36,664,790
<b>Total assets</b>	<b>\$ 3,904,219</b>	<b>\$ 630,543</b>	<b>\$ 5,383,230</b>	<b>\$ 5,007,247</b>	<b>\$ 4,529,904</b>	<b>\$ 362,269</b>	<b>\$ 905,541</b>	<b>\$ 38,228,356</b>	<b>\$ (2,526,561)</b>	<b>\$ 56,424,748</b>	<b>\$ 56,385,674</b>
<b>Liabilities and Fund Balances</b>											
<b>Liabilities</b>											
Accounts payable and accrued expenses	\$ 70,711	\$ 42,698	\$ 3,654	\$ 237,805	\$ 32,103	\$ 106,090	\$ 327	\$ 53,996	\$ -	\$ 547,384	\$ 659,601
Accrued payroll and related items	131,995	-	-	547,210	-	19,312	-	-	-	698,517	589,854
Assessments paid in advance	398,893	-	-	2,375,052	-	-	-	-	-	2,773,945	1,757,271
Deferred revenue	27,472	-	-	635,067	-	55,817	-	-	-	718,356	863,085
Due to other funds	1,755,090	42,182	-	50,348	308	37,803	150,893	2,437	(2,039,061)	-	-
Lease liability	12,892	-	-	51,568	-	-	-	-	-	64,460	86,763
Interfund loan payable	-	-	-	-	487,500	-	-	-	(487,500)	-	-
Bonds payable, net	-	-	-	-	-	-	-	10,808,315	-	10,808,315	15,073,221
<b>Total liabilities</b>	<b>2,397,053</b>	<b>84,880</b>	<b>3,654</b>	<b>3,897,050</b>	<b>519,911</b>	<b>219,022</b>	<b>151,220</b>	<b>10,864,748</b>	<b>(2,526,561)</b>	<b>15,610,977</b>	<b>19,029,795</b>
<b>Fund Balances Without Donor Restrictions</b>											
Undesignated	1,268,154	203,426	4,892,076	1,110,197	-	143,247	548,482	23,570,955	-	31,736,537	27,456,548
Designated for special projects	239,012	-	-	-	1,320,830	-	-	-	-	1,559,842	944,818
Designated for reserves	-	342,237	487,500	-	2,689,163	-	205,839	-	-	3,724,739	2,789,169
Held for bond principal and interest payments	-	-	-	-	-	-	-	3,792,653	-	3,792,653	6,165,344
<b>Total fund balances</b>	<b>1,507,166</b>	<b>545,663</b>	<b>5,379,576</b>	<b>1,110,197</b>	<b>4,009,993</b>	<b>143,247</b>	<b>754,321</b>	<b>27,363,608</b>	<b>-</b>	<b>40,813,771</b>	<b>37,355,879</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,904,219</b>	<b>\$ 630,543</b>	<b>\$ 5,383,230</b>	<b>\$ 5,007,247</b>	<b>\$ 4,529,904</b>	<b>\$ 362,269</b>	<b>\$ 905,541</b>	<b>\$ 38,228,356</b>	<b>\$ (2,526,561)</b>	<b>\$ 56,424,748</b>	<b>\$ 56,385,674</b>

Highlands Ranch Community Association, Inc.  
Statement of Revenues, Expenses and Changes in Fund Balances  
Year Ended December 31, 2020  
(with comparative totals for 2019)

	Administrative Fund			Recreation Fund					Eliminations	Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant		2020	2019
<b>Without Donor Restrictions</b>											
<b>Revenues</b>											
Homeowner assessments and fees	\$ 2,820,970	\$ -	\$ -	\$ 17,190,890	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,011,860	\$ 19,434,463
Recreation programs	-	-	-	3,132,984	-	525,641	-	-	-	3,658,625	5,660,750
Facility operations	-	-	-	476,561	-	3,800	-	-	(66,283)	414,078	866,524
Community events	163,545	-	-	18,500	-	-	-	-	-	182,045	466,093
Management fee	449,534	-	-	293,278	-	-	-	-	(742,812)	-	-
Grant revenue - CARES Act	38,990	-	-	246,436	-	-	-	-	-	285,426	-
Interest and other revenue	131,620	4,767	117,028	10,038	11,007	66,370	3,043	30,107	(5,745)	368,235	494,486
<b>Total revenues</b>	<b>3,604,659</b>	<b>4,767</b>	<b>117,028</b>	<b>21,368,687</b>	<b>11,007</b>	<b>595,811</b>	<b>3,043</b>	<b>30,107</b>	<b>(814,840)</b>	<b>24,920,269</b>	<b>26,922,316</b>
<b>Expenses</b>											
Salaries, employee benefits and taxes	1,688,788	-	-	10,177,946	-	688,767	-	-	-	12,555,501	13,966,470
Supplies and contract labor	78,404	-	-	687,989	18,536	130,189	-	-	-	915,118	1,704,947
Professional services	481,921	-	-	282,488	-	-	-	-	-	764,409	922,111
Community advertising and marketing	9,661	-	-	42,391	-	-	-	-	-	52,052	78,704
Information technology	163,820	240	-	378,633	3,670	-	-	-	-	546,363	576,073
Office expenses	203,430	-	-	351,742	-	5,084	-	-	-	560,256	741,766
Insurance	43,031	-	-	269,268	-	27,808	-	-	-	340,107	368,215
Depreciation	-	63,829	-	-	-	-	141,487	2,702,966	-	2,908,282	2,859,594
Interest	-	-	-	-	5,745	-	-	964,577	(5,745)	964,577	1,156,447
Occupancy and utilities	71,350	-	-	1,575,317	-	33,663	-	-	(66,283)	1,614,047	1,974,520
Conferences, meetings and travel	26,985	-	-	18,410	-	19,852	-	-	-	65,247	73,974
Management fee	293,278	-	-	449,534	-	-	-	-	(742,812)	-	-
Other operating expenses	44,116	-	-	40,671	-	-	-	-	-	84,787	66,762
<b>Total expenses</b>	<b>3,104,784</b>	<b>64,069</b>	<b>-</b>	<b>14,274,389</b>	<b>27,951</b>	<b>905,363</b>	<b>141,487</b>	<b>3,667,543</b>	<b>(814,840)</b>	<b>21,370,746</b>	<b>24,489,583</b>
<b>Losses</b>											
Loss on asset disposal	-	-	-	-	-	-	(5,650)	(85,981)	-	(91,631)	(79,027)
<b>Total losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5,650)</b>	<b>(85,981)</b>	<b>-</b>	<b>(91,631)</b>	<b>(79,027)</b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>499,875</b>	<b>(59,302)</b>	<b>117,028</b>	<b>7,094,298</b>	<b>(16,944)</b>	<b>(309,552)</b>	<b>(144,094)</b>	<b>(3,723,417)</b>	<b>-</b>	<b>3,457,892</b>	<b>2,353,706</b>
Transfers	(25,001)	25,001	(95,260)	(6,572,558)	1,715,882	405,000	105,260	4,441,676	-	-	-
<b>Change in Fund Balance</b>	<b>474,874</b>	<b>(34,301)</b>	<b>21,768</b>	<b>521,740</b>	<b>1,698,938</b>	<b>95,448</b>	<b>(38,834)</b>	<b>718,259</b>	<b>-</b>	<b>3,457,892</b>	<b>2,353,706</b>
Fund Balance, Beginning 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
<b>Fund Balance, End of Year</b>	<b>\$ 1,507,166</b>	<b>\$ 545,663</b>	<b>\$ 5,379,576</b>	<b>\$ 1,110,197</b>	<b>\$ 4,009,993</b>	<b>\$ 143,247</b>	<b>\$ 754,321</b>	<b>\$ 27,363,608</b>	<b>\$ -</b>	<b>\$ 40,813,771</b>	<b>\$ 37,355,879</b>

Highlands Ranch Community Association, Inc.  
Statement of Functional Expenses  
Year Ended December 31, 2020  
(with comparative totals for 2019)

	2020			2019
	Recreation and Community Programs	Management and General	Total	
Salaries, employee benefits and taxes	\$ 10,691,149	\$ 1,864,352	\$ 12,555,501	\$ 13,966,470
Supplies and contract labor	836,715	78,403	915,118	1,704,947
Professional services	284,958	479,451	764,409	922,111
Community advertising and marketing	42,391	9,661	52,052	78,704
Information technology	382,302	164,061	546,363	576,073
Office expenses	356,837	203,419	560,256	741,766
Insurance	297,076	43,031	340,107	368,215
Depreciation	2,844,456	63,826	2,908,282	2,859,594
Interest	964,577	-	964,577	1,156,447
Occupancy and utilities	1,542,697	71,350	1,614,047	1,974,520
Conferences, meetings and travel	38,262	26,985	65,247	73,974
Other operating expenses	44,119	40,668	84,787	66,762
<b>Total expenses</b>	<b>\$ 18,325,539</b>	<b>\$ 3,045,207</b>	<b>\$ 21,370,746</b>	<b>\$ 24,489,583</b>

Highlands Ranch Community Association, Inc.  
Statement of Cash Flows  
Year Ended December 31, 2020  
(with comparative totals for 2019)

	Administrative Fund			Recreation Fund					Totals	
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	2020	2019
Operating Activities										
Excess (deficiency) of revenues over expenses	\$ 499,875	\$ (59,302)	\$ 117,028	\$ 7,094,298	\$ (16,944)	\$ (309,552)	\$ (144,094)	\$ (3,723,417)	\$ 3,457,892	\$ 2,353,706
Adjustment to reconcile excess (deficiency) of revenues over expenses to net cash from (used for) operating activities										
Depreciation and amortization expense	-	63,829	-	-	-	-	141,487	2,702,966	2,908,282	2,859,594
Loss on asset disposal	-	-	-	-	-	-	5,650	85,981	91,631	79,027
Interest expense attributable to amortization of bond issuance costs	-	-	-	-	-	-	-	45,095	45,095	53,204
Bad debt expense	13,166	-	-	-	-	-	-	-	13,166	31
Principal payments on operating leases	(11,186)	-	-	(44,741)	-	-	-	-	(55,927)	(4,127)
(Increase) decrease in operating assets										
Assessments receivable, net	27,962	-	-	(2,542)	-	-	-	-	25,420	(42,443)
Accounts receivable, other	30,952	-	(1)	12,942	325	(2,713)	-	7,659	49,164	77,038
Prepaid expenses and other assets	6,154	-	-	(23,364)	-	(5,476)	(327)	-	(23,013)	55,263
Right-of-use asset	10,721	-	-	42,884	-	-	-	-	53,605	-
Increase (decrease) in operating liabilities										
Accounts payable and accrued expenses	(61,286)	13,088	3,654	(67,162)	(39,085)	33,582	327	7,643	(109,239)	(463,877)
Accrued payroll and related items	42,250	-	-	64,313	-	2,100	-	-	108,663	261,392
Assessments paid in advance	112,654	-	-	904,020	-	-	-	-	1,016,674	(881,485)
Deferred revenue	(7,660)	-	-	(137,848)	-	779	-	-	(144,729)	63,544
Net Cash from (used for) Operating Activities	<u>663,602</u>	<u>17,615</u>	<u>120,681</u>	<u>7,842,800</u>	<u>(55,704)</u>	<u>(281,280)</u>	<u>3,043</u>	<u>(874,073)</u>	<u>7,436,684</u>	<u>4,410,867</u>
Investing Activities										
Net sales of investments	200,000	94,967	1,551,638	-	245,000	20,000	14,857	325,000	2,451,462	1,315,578
Purchases of property and equipment	-	(23,298)	-	-	-	-	(94,084)	(1,578,843)	(1,696,225)	(2,741,732)
Net Cash from (used for) Investing Activities	<u>200,000</u>	<u>71,669</u>	<u>1,551,638</u>	<u>-</u>	<u>245,000</u>	<u>20,000</u>	<u>(79,227)</u>	<u>(1,253,843)</u>	<u>755,237</u>	<u>(1,426,154)</u>
Financing Activities										
Payment of accounts payable for property and equipment	-	(8,546)	-	-	-	-	-	(49,013)	(57,559)	(54,222)
Bond principal payments	-	-	-	-	-	-	-	(4,310,001)	(4,310,001)	(2,295,000)
Net borrowing and transfers among funds	850,930	14,301	54,741	(7,393,984)	1,552,510	377,006	105,257	4,439,239	-	-
Net Cash from (used for) Financing Activities	<u>850,930</u>	<u>5,755</u>	<u>54,741</u>	<u>(7,393,984)</u>	<u>1,552,510</u>	<u>377,006</u>	<u>105,257</u>	<u>80,225</u>	<u>(4,367,560)</u>	<u>(2,349,222)</u>
Net Change in Cash, Cash Equivalents, and Restricted Cash	1,714,532	95,039	1,727,060	448,816	1,741,806	115,726	29,073	(2,047,691)	3,824,361	635,491
Cash, Cash Equivalents, and Restricted Cash, Beginning 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, Cash Equivalents, and Restricted Cash, End of Year	<u>\$ 3,795,868</u>	<u>\$ 141,752</u>	<u>\$ 2,791,835</u>	<u>\$ 2,196,397</u>	<u>\$ 4,410,296</u>	<u>\$ 335,419</u>	<u>\$ 70,390</u>	<u>\$ 3,264,427</u>	<u>\$ 17,006,384</u>	<u>\$ 13,182,023</u>

Highlands Ranch Community Association, Inc.  
Statement of Cash Flows  
Year Ended December 31, 2020  
(with comparative totals for 2019)

	Administrative Fund			Recreation Fund				Totals		
	Operating	Reserves	OSCA Fund	Operating	Reserves	Backcountry Operating	Backcountry Reserves	Debt Service and Plant	2020	2019
Cash and cash equivalents	\$ 3,795,868	\$ -	\$ 2,791,835	\$ 2,196,397	\$ 1,320,830	\$ 335,419	\$ -	\$ -	\$ 10,440,349	\$ 5,806,559
Cash and cash equivalents designated for reserves	-	141,752	-	-	3,089,466	-	70,390	-	3,301,608	2,063,346
Cash and cash equivalents held for bond principal and interest payments	-	-	-	-	-	-	-	3,264,427	3,264,427	5,312,118
Total cash, cash equivalents, and restricted cash	<u>\$ 3,795,868</u>	<u>\$ 141,752</u>	<u>\$ 2,791,835</u>	<u>\$ 2,196,397</u>	<u>\$ 4,410,296</u>	<u>\$ 335,419</u>	<u>\$ 70,390</u>	<u>\$ 3,264,427</u>	<u>\$ 17,006,384</u>	<u>\$ 13,182,023</u>
Supplemental Disclosure of Cash Flow Information										
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 944,166</u>	<u>\$ 944,166</u>	<u>\$ 1,117,164</u>
Cash paid during the year for operating leases	<u>\$ 11,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,068</u>	<u>\$ 50,729</u>
Supplemental Disclosure of Non-cash Investing Activity										
Property and equipment purchases included in accounts payable	<u>\$ -</u>	<u>\$ 38,156</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,425</u>	<u>\$ 54,581</u>	<u>\$ 57,559</u>
Right-of-use assets obtained in exchange for lease liabilities	<u>\$ 6,725</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,624</u>	<u>\$ 90,890</u>

**Note 1 - Principal Activity and Significant Accounting Policies****Organization**

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, 2020, the membership consisted of approximately 31,800 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 normally hosts over 100 community events per year, but the number of events during 2020 were restricted due to the world-wide coronavirus pandemic.

**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, 2019, from which the summarized information was derived.

**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, 2020, the Association has no fund balances with donor restrictions.

### **Cash, Cash Equivalents, and Restricted Cash**

We consider all cash and highly liquid financial instruments with original maturities of three months or less to be cash and cash equivalents. Restricted cash represents funds restricted for special projects, reserves, or held for bond principal and interest payments.

### **Investments**

Investments are comprised of certificates of deposit that are initially recorded at cost. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment return/(loss) is reported in the balance sheet and consists of interest income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

### **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, 2020, the allowance was \$106,591.

### **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, 2020, 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 (\$2,967,955 at December 31, 2020). 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, 2020.

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 2020 were \$155.72 per quarter/\$622.88 per year per site. There are no changes to assessments starting January 1, 2021. Privately-owned sites designated for commercial use are billed for administrative purposes only.

Facility operations, including recreation programs, facility rentals, and product sales, as well as 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 \$52,052 during the year ended December 31, 2020.

### **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, 2020.

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 2017.

### **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.

### COVID-19

We have 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 our financial position is not known, however, we have been able to reduce expenses and received CARES Act benefits to provide for operational needs due to the impact of the world-wide coronavirus pandemic. To date, we have had to close our facilities once, as well as operate at a limited capacity through the majority of 2020.

### Subsequent Events

We have evaluated subsequent events through April 8, 2021, the date the financial statements were issued.

### Note 2 - Liquidity and Availability

The following table reflects our financial assets as of December 31, 2020, 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, 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)	\$ 8,880,507
Investments (b)	1,609,496
Assessments receivable, net	275,010
Accounts receivable, other	82,536
Cash and cash equivalents held for bond principal and interest payments in 2020	<u>2,967,955</u>
	<u>\$ 13,815,504</u>

(a) Net of \$1,559,842 designated for special projects.

(b) Certificates of deposit maturing in 2021 not designated for reserves or held for bond principal and interest payments.

Designated reserve funds are held in separate bank accounts and generally are unavailable for expenditure for normal operations. The Board of Directors has designated an additional \$1,559,842 for minor capital and other projects.

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.

### **Note 3 - Fair Value Measurements and Disclosures**

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets that can be accessed at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. These include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset. In these situations, inputs are developed using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Association's assessment of the quality, risk, or liquidity profile of the asset or liability.

Investment assets consists of certificates of deposits, totaling \$3,266,548 at December 31, 2020. These are classified within Level 2 because they are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions.

The Board of Directors has designated \$447,175 of the investment balance for reserves for future operations and replacements, and \$528,226 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, 2020:

	Administrative	Recreation		Total
	Fund	Fund		
	Reserves	Backcountry Reserves	Debt Service and Plant	
Buildings and improvements	\$ -	\$ 344,548	\$ 67,207,058	\$ 67,551,606
Furniture and equipment	702,647	1,029,392	6,261,856	7,993,895
Land	-	-	1,925,000	1,925,000
	702,647	1,373,940	75,393,914	77,470,501
Less accumulated depreciation	(468,348)	(674,565)	(41,082,517)	(42,225,430)
	234,299	699,375	34,311,397	35,245,071
Construction in progress	54,007	-	116,605	170,612
	<u>\$ 288,306</u>	<u>\$ 699,375</u>	<u>\$ 34,428,002</u>	<u>\$ 35,415,683</u>

#### 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.

Lease expense for the year ended December 31, 2020 totaled \$55,927.

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 2.39 years and 3.56%, respectively. The future minimum lease payments under noncancelable operating leases with terms greater than one year are listed below for the years ending December 31:

2021	\$ 37,704
2022	19,067
2023	5,442
2024	<u>2,247</u>
Present value of lease liabilities	<u>\$ 64,460</u>

### 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 (1.72% at December 31, 2020), 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, 2020 is \$487,500.

In addition, the administrative operating fund and the recreation operating fund charge an interfund management fee for legal and other related costs associated with assessment fees. This fee is recognized based on the Association's Community Declaration in which a portion of assessment fees is allocated pro-ratably among the administrative operating fund and the recreation operating fund.

### Note 7 - Bonds Payable

Bonds payable consist of the following at December 31, 2020:

Series 2004 Homeowners Assessment Revenue Bonds, dated August 19, 2004 (a) (b)	<u>\$ 10,808,315</u>
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(a) Payable in annually increasing amounts through 2024, with interest due semi-annually at 5.95%, net of unamortized bond issuance costs of \$81,685 (based upon an effective interest rate of 6.26%).

(b) 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
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
	<u>10,890,000</u>	<u>1,701,105</u>	<u>12,591,105</u>
Less unamortized debt issuance costs	(81,685)	-	(81,685)
	<u>\$ 10,808,315</u>	<u>\$ 1,701,105</u>	<u>\$ 12,509,420</u>

#### 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, 2020:

Assessments paid in advance, beginning of year	\$ 1,757,271
Homeowner assessments and fees revenue recognized	(20,011,860)
Collections of homeowner assessments and fees	21,028,534
Assessments paid in advance, end of year	<u>\$ 2,773,945</u>
Deferred revenue, beginning of year	\$ 863,085
Recreational programs, facility operations, and community events revenue recognized	(4,254,748)
Collections of program, facility, and community fees	4,110,019
Deferred revenue, end of year	<u>\$ 718,356</u>

#### 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 \$3,200,707 in the Recreation Reserve Fund, \$342,237 in the Administrative Reserve Fund, and \$205,839 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 \$2,182,698, \$59,450 and \$10,000 in the 2021 Recreational Reserve Fund budget, the 2021 Administrative Reserve Fund budget and the 2021 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 - Solar Contracts**

We have entered into three separate 20-year agreements with a solar garden operator for subscription to solar energy production. The agreements expire at various dates during the years ending December 31, 2038 through 2040. The solar gardens are constructed, owned, operated and maintained by the operators. Colorado law allows us to produce solar energy and attribute the share of such production to one or more of our metered premises through credits received from Xcel Energy. Our share of production is assigned a rate of 1 kilowatt per hour (kwh) in effect during the year in which the production month occurs, regulated by the Colorado Public Utilities Commission. Total production capacity from three solar gardens is estimated at approximately 6.2 million kwh. The payments for solar energy depend on the actual production of solar energy from the specific solar garden in which we subscribe times the rate in effect in any given year. During the year ended December 31, 2020, we made payments of \$164,001 to the solar garden operator and received \$178,277 Xcel Energy credits in return. The agreements allow us to continue our efforts in evaluating alternative energy and conservation opportunities in our community, further our sustainability initiatives and reduce the overall dependence on conventional sources of energy.

#### **Note 11 - 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, 2020, we matched employee voluntary contributions dollar-for-dollar up to 5%, resulting in total contributions to the Plan of \$287,375. Employees' voluntary contributions are immediately vested; our contributions vest at 20% per year of participation.

#### **Note 12 - 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.



Required Supplementary Information  
December 31, 2020

**Highlands Ranch Community  
Association, Inc.**

Highlands Ranch Community Association, Inc.  
Schedule of Estimated Future Major Repairs and Replacements  
December 31, 2020

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. A commissioned study was supposed to occur in 2020, but due to COVID-19, it was delayed until 2021. We have requested proposals from various firms to complete the study and plan to review proposals in quarter 1 of 2021. Due to unforeseen circumstances with COVID-19, the projected inflation rate of 2.875% and interest earnings of 0.35% did not reflect the actual economic conditions in 2020. This change will be reflected in the new study scheduled to take place in 2021.

Our policy is to maintain sufficient funds designated for reserves to accommodate a minimum of one year and maximum of two years of capital expenditures calculated using a 3-year average of actual costs incurred. Our budgeted outlook for capital expenditures is based on the schedule of anticipated repair and replacement projects in the reserve study to cover major capital repairs, replacements, maintenance, care, restoration and improvements.

The following table is based on the 2014 study, adjusted for projected inflation initially built into the study, and presents significant information about the components of the buildings, furniture and equipment, and assets designated for reserves as of December 31, 2020.

Major Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Costs	Assets Designated for Reserves at December 31, 2020		
			Recreation Reserve Fund	Administrative Reserve Fund	Backcountry Fund
Amenities	0-30	\$ 5,602,700			
Façade	0-40	889,797			
Fire and safety	0-20	164,654			
Flatwork	N/A	170,275			
Interiors	0-30	10,702,440			
Landscape and appurtenances	0-30	572,844			
Mechanical	0-30	6,974,861			
Paving and curbing	0-20	1,659,308			
Roofing	0-25	1,689,526			
Miscellaneous	0-25	2,126,735			
<b>Total</b>		<b>\$ 30,553,140</b>	<b>\$ 3,200,707</b>	<b>\$ 342,237</b>	<b>\$ 205,839</b>
<b>Replacement Costs by Location</b>					
Northridge Recreation Center		\$ 11,072,770			
Southridge Recreation Center		4,808,453			
Eastridge Recreation Center		9,143,649			
Westridge Recreation Center		4,346,824			
Administrative office		776,866			
Backcountry		404,578			
<b>Total</b>		<b>\$ 30,553,140</b>	<b>\$ 3,200,707</b>	<b>\$ 342,237</b>	<b>\$ 205,839</b>