

Eldorado Community Improvement Association, Inc.

Financial Statements, Supplementary Information
and
Independent Auditor's Report

December 31, 2020

Eldorado Community Improvement Association, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Eldorado Community Improvement Association, Inc.
Eldorado, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Eldorado Community Improvement Association, Inc. which comprise the balance sheet as of December 31, 2020, and the related statements of revenues, expenses, and changes in fund balances and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management (for this report Management is defined as those charged with governance, which is the Board of Directors and not the management company) 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 of 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.

To the Board of Directors
Eldorado Community Improvement Association, Inc.
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Opinion

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

Emphasis of a Matter

The Association's Board of Directors is ultimately responsible for all aspects of the association's governance. To this end, the Board of Directors employs a professional management company for (among other things) preparation of the financial information upon which this report is based, and relies upon the good faith and professional competence of the management company for these financial details. Nevertheless, for this report, and the remainder of the financial statements, Management is defined as the Association's Board of Directors.

Emphasis of Matter

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. We have not applied procedures to determine whether the funds designated for future major repairs and replacements as discussed in Note 5 are adequate to meet such future costs because that determination is outside the scope of our audit. Our opinion on the financial statements is not modified with respect to this matter.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements of common property on Page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Porch & Associates LLC

Albuquerque, New Mexico
February 3, 2021

ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION, INC.
BALANCE SHEET
December 31, 2020

DRAFT

	Operating Fund	Reserve Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents, undesignated	\$ 491,561	-	491,561
Cash and cash equivalents, designated for future repairs and replacements	-	915,969	915,969
Assessments and other receivables, net	110,708	2,068	112,776
Receivable, solar legal fees	3,268	-	3,268
Due from reserve fund	12,059	-	12,059
Prepaid expenses	5,703	-	5,703
Total current assets	623,299	918,037	1,541,336
Fixed Assets			
Furniture and office equipment	18,234	-	18,234
Vehicles	83,382	-	83,382
Machinery and equipment	58,450	-	58,450
Accumulated depreciation	(93,036)	-	(93,036)
Total fixed assets	67,030	-	67,030
Total assets	\$ 690,329	918,037	1,608,366
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 19,849	-	19,849
Due to operating fund	-	12,059	12,059
Accrued expenses	12,396	23,762	36,158
Taxes payable	4,144	-	4,144
Assessments received in advance	341,865	-	341,865
Deposits payable	11,550	-	11,550
Other liabilities	525	-	525
Total liabilities	390,329	35,821	426,150
FUND BALANCES			
Unreserved, undesignated	300,000	-	300,000
Unreserved, designated for future replacements and repairs	-	882,216	882,216
Total fund balances	300,000	882,216	1,182,216
Total liabilities and fund balances	\$ 690,329	918,037	1,608,366

The accompanying notes are an integral part of these financial statements.

ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Year Ended December 31, 2020



	Operating Fund	Reserve Fund	Total
Revenues			
Assessments	\$ 1,164,749	362,051	1,526,800
Other:			
Interest, late fees, fines, and other fees	37,433	-	37,433
Solar legal fee reimbursement	11,130	-	11,130
Interest income	4,393	10,753	15,146
Other income	33,499	-	33,499
Total revenues	1,251,204	372,804	1,624,008
Expenses			
Salaries, taxes, and related expenses	342,575	-	342,575
Repairs and maintenance - general	241,912	-	241,912
Pool	176,185	-	176,185
Office	150,570	-	150,570
Repairs and maintenance - landscaping	61,534	-	61,534
Stables	34,849	-	34,849
Management fees	32,126	-	32,126
Legal fees	29,647	-	29,647
Insurance	29,642	-	29,642
Postage and printing	28,138	-	28,138
Security	26,703	-	26,703
Other	22,375	-	22,375
Depreciation	17,508	-	17,508
Automotive	12,150	-	12,150
Capital projects	10,974	-	10,974
Accounting	9,550	-	9,550
Bad debt expense	7,728	-	7,728
Utilities	6,634	-	6,634
Taxes	7,669	-	7,669
Reserve study	2,735	-	2,735
Reserve expenses	-	290,358	290,358
Total expenses	1,251,204	290,358	1,541,562
Net change in fund balances	-	82,446	82,446
Fund balances, beginning of year	300,000	799,770	1,099,770
Fund balances, end of year	\$ 300,000	882,216	1,182,216

The accompanying notes are an integral part of these financial statements.

ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2020

DRAFT

	Operating Fund	Reserve Fund	Total
Cash Flows From Operating Activities			
Net change in fund balances	\$ -	82,446	82,446
Adjustments to reconcile the net change in fund balances to net cash provided by operating activities:			
Depreciation	17,508	-	17,508
Allowance for bad debts	7,728	-	7,728
Changes in assets and liabilities:			
Assessments and other receivables, net	(7,996)	(2,068)	(10,064)
Receivable, solar legal fees	12,560	-	12,560
Due from reserve fund	5,430	-	5,430
Prepaid expenses	(4,417)	-	(4,417)
Accounts payable	2,987	-	2,987
Due to operating fund	-	(5,430)	(5,430)
Accrued expenses	585	23,762	24,347
Taxes payable	(1,924)	-	(1,924)
Assessments received in advance	183,002	-	183,002
Deposits payable	5,600	-	5,600
Other liabilities	525	-	525
Net cash used by operating activities	221,588	98,710	320,298
Cash Flows From Investing Activities			
Cash paid for fixed assets	(50,699)	-	(50,699)
Net change in cash and cash equivalents	170,889	98,710	269,599
Cash and cash equivalents, beginning of year	320,672	817,259	1,137,931
Cash and cash equivalents, end of year	\$ 491,561	915,969	1,407,530
Supplemental Disclosures of Cash Flow Information			
Cash payments for income taxes	\$ 6,068	-	6,068

The accompanying notes are an integral part of these financial statements.

NOTE 1. BACKGROUND INFORMATION

Eldorado Community Improvement Association, Inc. (Association) was incorporated in the State of New Mexico as a non-profit corporation in 1972. It is located in Eldorado, New Mexico and consists of 2,776 residential units. The Association was formed primarily for the protection, improvement, alteration, maintenance, repair replacement, ownership administration and operation of the common areas within the Association. Common areas consist of but are not limited to recreation equipment, community center, gates, signs and lighting. All of the residential property in the Association is subject to the Eldorado Community Improvement Association Declaration of Covenants (Declaration) and associated governing documents.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Association is presented to assist in the understanding of the Association's financial statements. The financial statements and notes are the representations of the Association's management which is responsible for their integrity and objectivity.

The Financial Accounting Standards Board (FASB) has issued the Accounting Standards Codification (ASC or the Codification) as the source of authoritative accounting principles recognized by the FASB to be used by nongovernmental entities when preparing financial statements in accordance with Generally Accepted Accounting Principles (GAAP) in the United States. The Codification essentially reduces the GAAP hierarchy to two levels: authoritative and non-authoritative, with the Codification being authoritative GAAP.

Fund Accounting. In order to ensure observance of limitations and designations on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund – This fund is used to account for financial resources available for general operations of the Association.

Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements within the Association. Reserve funds are not co-mingled with operating funds.

Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents. The Association considers all currency on hand, demand deposits, money market funds, and certificates of deposit to be cash and cash equivalents.

Concentration of Credit Risk. The Association maintains its cash and cash equivalents in bank deposit and money market accounts. Cash balances in excess of federally insured limits at December 31, 2020 are covered by a private depositor bond. The Association has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Revenue Recognition. The Association follows ASC Topic 606, *Revenue from Contracts with Customers*, which requires the recognition of revenue when promised goods or services are transferred by the Association in an amount that reflects the consideration to which the Association expects to be entitled to in exchange for the goods or services.

The Association adopted Topic 606 as of January 1, 2020, using the modified retrospective method of transition, which requires the cumulative effect of the changes related to the adoption be charged to beginning fund balance. The Association has reviewed its revenue recognition policies and has determined that Topic 606 does not change the Association's revenue recognition. As a result, there are no changes to opening fund balances.

The Association recognizes revenue as follows:

Assessments and Charges to Homeowners. Topic 606 allows similar contracts to be treated the same. Therefore, revenue recognition will be the same for all homeowners. It is not necessary to evaluate each homeowner's contract. This applies to all standardized revenues such as assessments, late fees, fines, other fees and charges. Assessments are recognized as revenues ratably over the period covered by the assessments. This includes assessments allocated to reserve funds. Other charges are recognized as revenues when imposed on the homeowner.

Interest Income. Operating and reserve funds have individual interest-bearing deposit accounts and money market funds. Interest income associated with the accounts is reported in the respective funds. Interest income is recognized as revenue when earned.

All Other Income. All other revenues are recognized when the goods or services are provided.

Member Assessments. In order for the Association to preserve and maintain the community, each owner of a residential unit is required to pay base assessments to the Association for the unit's pro rata share of the common expenses incurred by the Association for the general benefit of all units. Base assessments are levied annually. In addition, the Association is authorized under certain circumstances to levy special assessments.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Base assessments are determined on the basis of a budget prepared annually and approved by the Association's board of directors covering the estimated costs of operating the Association during the coming year. Special assessments are available for limited purposes and do not require membership approval. Penalty assessments are governed by the collection's policy in place by Board Resolution, and does not require membership approval. Any excess assessments at year-end are retained by the Association for use in succeeding years.

The obligation to pay assessments commences as to each unit on the first day of the first month following the date on which the unit is made subject to the Declaration. If payment is not received by the established due date, the assessment is considered late, and late fees and administrative fees will be charged as provided for in the Association's policy. In addition, payments not received on or after the 45th day following the due date will bear interest at a rate determined by the board.

All assessments are the personal obligation of the owner of the unit and also constitute a lien against the unit prior and superior to all other liens except the lien of a first mortgage and taxes.

Assessments Receivable. The Association had assessments receivable of \$51,334, other receivables of \$60,913, and solar legal fees receivable of \$3,268, for a total of \$115,515 at December 31, 2020. Other receivables are comprised of late charges, interest charged to homeowners, fines, lien charges, attorney fees, and returned check charges. Of total receivables, \$98,625 was more than ninety days outstanding.

Management reviews the collectability of its receivables regularly and, when appropriate, records an estimate for uncollectible accounts. The basis for the estimate is the total of accounts in foreclosure and bankruptcy. When an account is determined to be uncollectible by the board of directors, it is charged off against the estimate. Based on this criteria, the Association has established an allowance for uncollectible accounts of \$1,539 as of December 31, 2020.

Income Taxes. Homeowners' associations may elect to be taxed as regular corporations, subject to the provisions of Internal Revenue Code (IRC) Section 277, or as homeowners' association subject to IRC Section 528. The Association has elected to be taxed as a homeowners' association under IRC 528. Under that election, net income arising from defined exempt function activities is not taxed; however federal income tax is assessed on income derived from nonexempt function activities at a rate of 30%. Exempt function income basically consists of amounts received from Association members solely as a function of their membership in the Association. Non-exempt function income results primarily from revenue from nonmembers and investment income.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The FASB has issued guidance, included in the ASC, related to the accounting for uncertainty in taxes recognized in financial statements. These standards require recognition and measurement of uncertain income tax positions using a "more likely than not" approach. The Association evaluates its uncertain tax positions, and a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated.

The amount recognized is subject to estimate and management's judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

The Association classifies interest and penalties with respect to material uncertain tax positions recognized in the financial statements (when applicable) as interest expense and as an operating expense, respectively. The Association has assessed its tax positions for all open tax years (2018 through 2020) and has concluded that there are currently no significant liabilities to be recognized.

Property and Equipment, Common Areas. The American Institute of Certified Public Accountants' guide on Common Interest Realty Associations required common area property and equipment to be capitalized if the Association has title to the assets and (1) the Association can dispose of the property, at the discretion of its board of directors, for cash or claims to cash, with the Association retaining the proceeds, or (2) the property is used by the Association to generate significant cash flows from members on the basis of usage or from nonmembers.

The Association's policy is to capitalize assets with a cost of \$5,000 or more that have a service life of more than one year. Property and equipment shown in the balance sheet consists of assets depreciated over the following useful lives using the straight-line method of depreciation:

Furniture and equipment	10 years
Vehicles	5 years
Machinery and equipment	5 to 10 years

NOTE 3. CONTINGENCIES

Insurance. The Association has commercial insurance for various risks. The Association's property insurance includes a 90% co-insurance requirement, meaning the Association is potentially responsible for the remaining 10% of replacement costs.

NOTE 4. ECONOMIC DEPENDENCY

Approximately 94% of the Association's revenue for the year ended December 31, 2020 was derived from member assessments.

NOTE 5. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The Association has accumulated funds based on a reserve study performed by an independent contractor that estimates the remaining useful life and replacement costs of the common property components and reviewed by designated Association committees.

The Association designated \$360,793 in reserve replacement funds and incurred \$290,358 in reserve fund expenditures for the year ended December 31, 2020. Accumulated reserve funds, which aggregate to \$915,969 at December 31, 2020, are held in separate accounts and generally are not available for operating purposes. The reserve fund has \$12,059 payable to the operating fund as of December 31, 2020. Payment of this amount will reduce available reserve funds.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures for future repairs and replacements and contingency reserves may vary from the estimated amounts, and the variations may be material. Therefore, amounts accumulated in the replacement funds and contingency reserve may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right to increase regular assessments or levy special assessments under certain circumstances, or it may delay major repairs and replacements until funds are available.

NOTE 6. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The Association recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Association's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date and before financial statements are available to be issued.

The Association has evaluated subsequent events through February 3, 2021 which is the date the financial statements are available to be issued. Subsequent to year-end, the United States and global economies experienced significant declines resulting from uncertainty caused by the world-wide coronavirus pandemic. The Association closed the clubhouse and other amenities during portions of 2020 as required and/or recommended by public health authorities as a result of the pandemic. The effects of the pandemic and clubhouse closure on the future financial results of the Association are unknown.

ELDORADO COMMUNITY IMPROVEMENT ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (Compiled)
December 31, 2020



An independent firm conducted a reserve study in December 2019 to estimate the remaining useful life and replacement costs of the components of common property for the Association. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study assuming an annual inflation rate of 3.5%. The following information is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Life	Estimated Future Replacement Costs
Grounds	1 – 12	\$ 29,250
Horse stables	0 – 17	81,800
Campadres park	1 – 15	154,950
Community center grounds	0 – 45	963,100
Community center amenities	0 – 24	373,550
Community center pool area	0 – 29	533,700
Community center bldg. exterior	0 – 20	231,000
Community center bldg. interior	0 – 18	303,250
Community center barn	0 – 33	225,050
		\$ 2,895,650