

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITOR'S REPORT

and

SUPPLEMENTARY INFORMATION

May 31, 2018 and 2017

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Revenues and Expenses	4
Statement of Changes in Members' Equity	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-13
Supplementary Information:	
Supplementary Information on Future Major Repairs and Replacements (unaudited)	14-15
Supplementary Schedule of Activity in Members' Equity	16

**Huston Accounting Services, LLC
Certified Public Accountant
1450 Ward Circle
Franktown, CO 80116
(303) 798-8266 FAX (303) 379-5394**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the:
Crystal Lakes Road and Recreation Association
Red Feather Lakes, Colorado

I have audited the accompanying financial statements of Crystal Lakes Road and Recreation Association, which comprise the balance sheet as of May 31, 2018, and the related statements of revenue and expenses, changes in members' equity, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crystal Lakes Road and Recreation Association as of May 31, 2018, 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Future Major Repairs and Replacements on pages 14-15 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. I 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 principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information, and other knowledge I obtained during my audit of the basic financial statements. I 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.

Report on Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information included in the Schedule of Activity in Members' Equity on page 16, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matter

The financial statements for the year ended May 31, 2017 were audited by a predecessor auditor and, in their report dated November 17, 2017, they expressed an unqualified opinion on those financial statements.



Huston Accounting Services, LLC
November 7, 2018

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
BALANCE SHEETS
May 31, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 746,363	\$ 432,759
Prepaid expenses and deposits	28,707	42,938
Due from affiliated entity	-	-
Inventory	6,849	8,556
Total Current Assets	781,919	484,253
Non-Current Assets:		
Cash and cash equivalents, designated	770,510	195,999
Investment in certificates of deposit and mortgage backed securities, designated	241,564	604,483
Dues and accounts receivable, net of allowance of \$3,600 and \$15,000 as of May 31, 2018 and May 31, 2017, respectively	10,701	40,694
Property and equipment, net	598,126	533,854
Total Non-Current Assets	1,620,901	1,375,030
Total Assets	\$ 2,402,820	\$ 1,859,283
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 11,770	\$ 17,766
Accrued expenses	8,605	8,024
Prepaid assessments	476,073	202,745
Other liabilities	-	-
Total Current Liabilities	496,448	228,535
Total Liabilities	496,448	228,535
Commitments and Contingencies (Notes 3, 4, 5, 6, 8, and 9)		
Members' Equity		
Undesignated		
Operations	444,439	444,681
Invested in property and equipment	449,859	385,585
Designated for future repairs and replacements	1,012,074	800,482
Total Members' Equity	1,906,372	1,630,748
Total Liabilities and Members' Equity	\$ 2,402,820	\$ 1,859,283

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

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
STATEMENTS OF REVENUES AND EXPENSES
For the Years Ended May 31, 2018 and 2017

	2018	2017
Revenues:		
Membership dues and assessments	734,006	\$ 737,840
Overhead fee, related party	39,004	40,776
Operating and other revenues	181,018	173,107
Rental revenue	21,288	19,656
Sales revenue	<u>33,564</u>	<u>15,234</u>
Total Revenues	<u>1,008,880</u>	<u>986,613</u>
Expenses:		
Employee expense	209,192	209,800
Administrative expense	168,087	190,341
Depreciation	69,596	66,686
Road construction and maintenance	72,565	42,059
Building, equipment and grounds maintenance	116,776	136,274
Utilities	21,683	20,458
Recreational services	<u>80,131</u>	<u>68,992</u>
Total Expenses	<u>738,030</u>	<u>734,610</u>
Excess of Revenues over Expenses	<u>\$ 270,850</u>	<u>\$ 252,003</u>

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

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
STATEMENT OF CHANGES IN MEMBERS' EQUITY
For the Years Ended May 31, 2018 and 2017

	Total	Undesignated	Designated for Repairs and Replacement
MEMBERS' EQUITY – May 31, 2016	\$ 1,390,757	\$ 803,877	\$ 586,880
Excess of revenues over expenses	252,003	252,003	-
Allocated to future repairs and replacements			
Revenue	-	(341,994)	341,994
Expenditures	-	128,392	(128,392)
Unrealized gain (loss)	<u>(12,012)</u>	<u>(12,012)</u>	<u>-</u>
MEMBERS' EQUITY – May 31, 2017	1,630,748	830,266	800,482
Excess of revenues over expenses	270,850	270,850	-
Allocated to future repairs and replacements			
Revenue	-	(358,776)	358,776
Expenditures	-	147,184	(147,184)
Unrealized gain (loss)	<u>4,774</u>	<u>4,774</u>	<u>-</u>
MEMBERS' EQUITY – May 31, 2018	<u>\$ 1,906,372</u>	<u>\$ 894,298</u>	<u>\$ 1,012,074</u>

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

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
STATEMENTS OF CASH FLOWS
May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Excess of revenues over expenses	\$ 270,850	\$ 252,003
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities		
Depreciation expense	69,596	66,686
Loss on disposition of assets	4,774	3,815
(Increase) decrease in operating assets		
Dues and accounts receivable	29,993	(11,005)
Prepaid expenses and deposits	14,231	(13,684)
Inventory	1,707	(587)
Due from affiliated entity	-	48,946
Increase (decrease) in operating liabilities		
Accounts payable	(5,996)	(13,830)
Prepaid assessments	273,328	186,071
Accrued expenses and other	583	(1,076)
Due to affiliated entity	<u>-</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>659,066</u>	<u>517,339</u>
Cash Flows from Investing Activities:		
Net investment in certificates of deposit and mortgage backed securities, designated	362,919	(251,187)
Proceeds from sale of property and equipment	-	6,600
Acquisition of property and equipment	<u>(133,870)</u>	<u>(38,622)</u>
Net Cash Provided by (Used in) Investing Activities	<u>229,049</u>	<u>(283,209)</u>
Cash Flows from Financing Activities:		
Principal payments on notes payable	<u>-</u>	<u>-</u>
Net Cash (Used) in Financing Activities	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	888,115	234,130
Cash and Cash Equivalents, Beginning of Year	<u>628,758</u>	<u>394,628</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,516,873</u>	<u>\$ 628,758</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income tax	<u>\$ -</u>	<u>\$ -</u>

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

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(1) Nature of Organization

The Crystal Lakes Road and Recreation Association (the "Association") was organized as a not for profit corporation in the state of Colorado in September 1969. The Association is responsible for the maintenance of roads and grounds and the promotion of recreational facilities for property owners and guests for approximately 5,000 acres containing approximately 1,611 lots in the Crystal Lakes development located in Red Feather Lakes, Colorado.

(2) Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions subsequent to May 31, 2018 and through November 7, 2018, the date the financial statements were available to be issued, to assess the need for potential recognition or disclosure in this report.

(3) Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recognized when the product or service has been received and the liability incurred.

Member Assessments and Assessments receivable

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date consist of fees due from lot owners. The Association's policy is to retain legal counsel and place liens on the properties of members whose assessments are delinquent. The Association uses the allowance method whereby the uncollectible receivables are written off through the allowance for doubtful accounts. The Association generally does not require collateral for its accounts receivable. As members' dues are billed annually at the beginning of the fiscal year, any amounts due at year-end have been outstanding for approximately one year. Due to the time the receivables have been outstanding and uncertain nature of when the balance will be collected, management has elected to exclude accounts receivable from current assets. Allowances for doubtful accounts are based on a review of the status of existing accounts coupled with past collection experience. At May 31, 2018 and 2017, accounts receivables are net of allowances of \$3,600 and \$15,000, respectively.

The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods. For the year ended May 31, 2018, annual assessments, including assessments for Basecamp, road improvements, road equipment and major repairs and replacements, were approximately \$460 per lot. See Note 4 for additional information.

Revenue Recognition

Regular assessments to members are recognized as revenue during the period for which they are assessed. Assessments received in advance of this period are reported as prepaid assessments on the balance sheet and represent dues that are retained by the Association for use in the succeeding year.

The Association derives a minimal portion of its revenue from non-members. Costs, if any, associated with this revenue, are included in the Association's operating costs and expenses.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(3) Summary of Significant Accounting Policies, Continued

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of temporary cash investments and cash equivalents, and assessments receivable. The aggregate balance insured by the FDIC is a maximum of \$250,000 per depositor at each FDIC insured depository institution. On occasion the Association may have amounts of cash or cash equivalents in financial institutions in excess of amounts insured by agencies of the U.S. Government.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments in certificates of deposit and mortgage backed securities having a readily determinable fair value are carried at fair market value which is determined by reference to inputs other than quoted market prices in active markets that are either directly or indirectly observable. Investment returns include interest and realized and unrealized gains and losses. See Note 9.

Restricted and designated cash

At May 31, 2018, other non-current assets included designated cash and investments of \$1,012,074, including \$942,344 designated for major repairs and replacements and \$69,730 designated for fishing.

Inventory

Inventories are stated at the lower of cost or market.

Fair value of financial instruments

The Association's financial instruments are cash and cash equivalents, investments, accounts receivable, accounts payable, and notes payable. The recorded values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values based on their short-term nature.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(3) Summary of Significant Accounting Policies, Continued

Common Property

The Association owns various common properties, including roadways, greenbelts, the office, and Basecamp buildings. In accordance with ASC 972, the properties originally contributed by the developer are not reported on the accompanying financial statements. The assets contributed by the developer are primarily land and roads.

Any properties subsequently acquired are carried at the Association's cost, net of depreciation. The Association subsequently acquired, and has reflected in its financial statements, assets including the Basecamp, a maintenance shop, office buildings, the greenbelts, and one-half of Catawba Lake.

The Association is primarily responsible for the repair and maintenance of roadways, Wapiti Center, Basecamp, the maintenance shop, greenbelts and lakes/ponds. The maintenance of these properties is funded by member assessments.

Property, equipment and depreciation

The Association's policy is to capitalize material property and equipment, if any, at cost and depreciate over the assets' estimated useful lives ranging from three to forty years, using the straight-line method. No depreciation is recorded on construction in progress until such assets are placed into operation. Repairs and maintenance are charged to expense as incurred.

The carrying amounts of long-lived assets are reviewed for impairment if events or changes in the facts and circumstances indicate that their carrying amounts may not be recoverable. Estimated undiscounted future cash flows of the related asset is compared to its carrying amount.

Lots held for sale

On occasion, the Association will acquire lots from sheriff's sales and hold them until they can be resold. Lots are recorded at the cost of unpaid assessments, legal fees and property taxes at date of acquisition. Since the sum of these costs are generally less than the fair market value, the Association has not incurred any material impairment losses related to lots held for sale.

Reclassification

Certain amounts previously reported have been reclassified to conform to current presentation.

Recent accounting standards

There were various accounting standards and interpretations issued during 2018 and 2017, none of which are expected to have a material impact on the Association's financial position, operations, or cash flows.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(4) Designated Members' Equity, Future Major Repairs and Replacements

The Association's governing documents do not require the accumulation of funds to finance future major repairs and replacements. The Board of Directors, however, established the major repairs and replacement fund (the replacement fund) to accumulate funds for the estimated costs of future major repairs and replacements, required projects, and for the expansion of existing common property, and established a fishing fund for future costs. Accumulated funds, which aggregate \$1,012,074 at May 31, 2018, are held in investment accounts at RBC Wealth Management and are generally not available for operating purposes. During the year ended May 31, 2018, contributions to the major repairs and replacement fund were \$262,193, and contributions to the fishing fund were \$96,583, for a total of \$358,776. During the year ended May 31, 2018, expenditures totaling \$147,184 were incurred, including \$66,462 for major repairs and replacements and \$80,722 for fishing.

The Association allocates approximately \$16,000 per year (\$10 per lot) to help pay for fishing operations. These funds are not considered special assessments, but are reflected as designated in the financial statements.

The Association's Board of Directors approved a study conducted by an independent reserve specialist in July 2015, and updated in November 2016, to estimate the remaining useful lives and the replacement costs of the common property components. The Association plans to fund for such major repairs and replacements over the estimated useful lives of the components. The study estimates current replacement costs, considering amounts previously designated for future repairs and replacements. Actual expenditures however, may vary from the estimated amounts and the variations may be material. Therefore, amounts designated for future repairs and replacements may not be adequate to meet future needs. If additional funds are needed, the Association may need to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. A contingency exists with respect to this matter, the ultimate resolution of which cannot presently be determined.

(5) Income Taxes

The standards on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include deciding on an allocation of income and expenses between member and nonmember activities and deciding whether to file Form 1120 or Form 1120-H. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement. The Association has assessed its tax positions for all open years and has concluded that there are currently no significant unrecognized tax benefits or liabilities to be recognized.

The Association qualifies as a tax-exempt homeowners' association under Internal Revenue Code ("IRC") Section 528 for the years ended May 31, 2018 and 2017. Under that section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government and at 4.63% by the State of Colorado. The Association elected to be taxed as a homeowners' association for the fiscal years ending May 31, 2018 and 2017. The Association incurred no income tax expenses for the years ended May 31, 2018 and 2017, respectively.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(5) Income Taxes, Continued

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. The income tax returns for the tax years ended May 31, 2016, 2017, and 2018 remain open to examination.

(6) Related Party Transactions

Transactions with Crystal Lakes Water and Sewer Association

Crystal Lakes Road and Recreation Association and Crystal Lakes Water and Sewer Association (CLWSA/affiliate) are organizations that consist primarily, but not exclusively, for the benefit of the Crystal Lakes property owners. The Associations shared certain administrative, employee, and other expenses through May 31, 2018. If they were stand-alone entities, expenses may be different, and the differences may be material. Effective June 1, 2016, the Association entered into an agreement with CLWSA, whereby the Association would charge a monthly overhead fee to CLWSA to cover shared expenses. The annual overhead fee was based on the actual expenses for previous years. During the year ended May 31, 2018, the Association received a total of \$39,004 in overhead fees from CLWSA. There was no balance due to/from affiliate as of May 31, 2018. Effective June 1, 2018, the Association and CLWSA terminated the agreement and no longer share expenses. A contingency exists with respect to this matter, the ultimate resolution of which cannot be determined.

Other Related Party Transactions

The Association entered into a contract with a homeowner to remodel the community center, and paid him \$12,752 during the year ended May 31, 2018.

The Association employed certain homeowners as property manager, office staff, and other positions during the years ended May 31, 2018 and 2017.

(7) Property and Equipment

Property and equipment are summarized as follows:

	<u>2018</u>	<u>2017</u>
Land and improvements	\$ 115,158	\$ 115,158
Tract E land and improvements	220,254	220,254
Buildings and improvements	197,481	197,481
Machinery and equipment	586,114	575,833
Autos and trucks	223,558	144,493
Office furniture and equipment	11,787	11,787
Tract E equipment	21,974	21,974
Other depreciable property	<u>164,185</u>	<u>119,661</u>
Subtotal	1,540,511	1,406,641
Accumulated depreciation and amortization	<u>(942,385)</u>	<u>(872,787)</u>
Property and Equipment, net	<u>\$ 598,126</u>	<u>\$ 533,854</u>

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(8) Commitments and Contingencies

Management Agreement

Effective October 1, 2014, the Association entered into an agreement with a property manager, whereby the Association was committed to pay a monthly fee of \$2,100 plus other fees and reimbursements for a period of 18 months, in exchange for property management services. Effective April 1, 2016, the Association entered into a renewal agreement with this property manager, whereby the Association was committed to pay a monthly fee commencing at \$2,663, increasing to \$2,750 effective June 1, 2018, plus other fees and reimbursements for a period of 38 months, in exchange for property management services. The Association was subject to certain contingencies and commitments under this agreement. On November 1, 2016, the Association terminated its agreement with this property manager effective December 31, 2016. On November 11, 2016, the Association entered into agreements with a consultant effective January 1, 2017 and renewed May 1, 2018, whereby the consultant would provide consulting services for a minimum monthly fee of \$625, and accounting services for a minimum monthly fee of \$2,135 through May 31, 2019. In addition, the consultant provides a property manager and other services as agreed upon.

FEMA Grant

The Association entered into a FEMA public assistance grant funded construction project with Larimer County for a hazardous fuels reduction program. Under the grant, the project cost totals \$503,150, with \$377,363 in federal funds, \$62,893 in state funds, and \$62,894 (12.5%) for which the Association is responsible.

Litigation

The Association is a defendant in an easement dispute, which challenges its access and use of its easement to the National Forest boundary. The Association is vigorously defending its right to the easement, has asserted a counterclaim for declaratory relief, and believes it has a good chance of success. A contingency exists with respect to this matter, the ultimate resolution of which cannot presently be determined.

(9) Fair Value Measurements

The Association measures its financial assets and liabilities under accounting guidelines which establishes a three-tier value hierarchy and prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Much of the information used to determine fair values is highly subjective and judgmental in nature and, therefore the results may not be precise. In addition, estimates of cash flows, risk characteristics, credit quality and interest rates are all subject to change. Since the fair values are estimated as of the statement of financial position date, the amounts, which will actually be realized or paid upon settlement or maturity of the various instruments, could be significantly different than the estimates.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
May 31, 2018 and 2017

(9) Fair Value Measurements, Continued

The Association's financial assets are measured at fair value on a recurring basis and include certificates of deposit and mortgage backed securities which are both classified within Level 2, as these assets are valued using inputs other than quoted prices in active markets that are either directly or indirectly observable. The Association recognizes transfers of assets into and out of Levels as of the date an event or change in circumstances causes the transfer.

The following fair value hierarchy table presents information about the Association's assets measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques utilized by the Association to determine such fair value. The certificates of deposit and mortgage backed securities have various maturity dates ranging from six months to 30 years. There have been no changes in the methodologies used at May 31, 2018.

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 2)</u>	<u>Cost</u>
Certificates of deposit	\$ 149,334	\$ 149,334	\$ 152,128
Mortgage backed securities	<u>92,230</u>	<u>92,230</u>	<u>96,676</u>
	<u>\$ 241,564</u>	<u>\$ 241,564</u>	<u>\$ 248,804</u>

Investment return for the year ended May 31, 2018, including interest on cash accounts, is comprised of the following in the Replacement Fund:

Interest income	\$ 14,918
Unrealized loss on investments reported at fair value	<u>(4,774)</u>
	<u>\$ 10,144</u>

Investments by fund are as follows:

Operating Fund	\$ -
Replacement Fund	<u>241,564</u>
	<u>\$ 241,564</u>

(10) Subsequent Events

The Association has evaluated events and transactions subsequent to May 31, 2018 and through November 7, 2018, the date the financial statements were available to be issued, to assess the need for potential recognition or disclosure in this report.

SUPPLEMENTARY INFORMATION

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION

**SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)**

For the Years Ended May 31, 2018 and 2017

The Association’s Board of Directors approved a study conducted by an independent reserve specialist in July 2015, and updated in November 2016, to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs also do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement. The following information is based on the study and presents significant information about the components of common property:

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Replacement Cost</u>
Trailer pad storage – repair	3	7,500
Concrete pads/walk – repair/replace	9	18,600
Lakes/ponds/streams – maintain	2	45,000
Mailboxes sheds – refurbish	12	6,500
Mailbox pedestals – allowance	0	1,600
Entrance sign – refurbish/replace	5	11,100
Greenbelt – mitigate	0	41,000
Tami bridge – replace	11	325,000
Fuel tank – replace	17	40,000
Big Tex trailer – replace	22	5,650
Dump truck – replace	0	74,000
ATV – replace	1	10,100
Dodge truck – replace (16’)	5	43,000
Ford truck – replace (10’)	0	43,000
Ford truck – replace (12’)	2	43,000
Ford truck – replace (15’)	5	43,000
Snow plow blades – replace	0	14,000
Backhoe – replace	11	65,000
Cat loader – replace	10	101,500
Motor grader – replace	10	150,000
Roller/compactor – replace	10	79,500
Skid steer – replace	19	56,000
Water tanker – replace	2	85,000
Deck – resurface/replace	6	48,500
Wood trim/siding – repaint/repair	1	16,500
Shop shingle roof – replace	6	12,000
WC/BC roof – replace	13	98,000
Shop metal roof – replace	6	32,000
Shop – refurbish	0	42,000
Interior surfaces – paint	0	12,000

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)

Continued

For the Years Ended May 31, 2018 and 2017

<u>Component</u>	<u>Estimated Remaining Useful Life</u>	<u>Estimated Current Replacement Cost</u>
Basecamp flooring – replace	0	16,000
Wapiti Center flooring – replace	0	16,000
Basecamp furniture – replace	6	20,000
Wapiti Center furniture – replace	7	13,000
Wapiti office furniture – replace	0	6,500
Basecamp bathrooms – refurbish	0	11,000
Wapiti bathrooms – refurbish	2	9,100
Basecamp -refurbish	6	18,000
Wapiti Center – refurbish	7	36,000
Downstairs Wapiti Center – remodel	0	8,500
Office/Audio equipment – replace	0	7,650
Basecamp kitchen/apps. – refurbish	12	30,000
Base station equipment – replace	7	5,000
Warning signs – replace	1	61,000
Instant water heater – replace	7	5,000
Boilers – replace	0	<u>12,000</u>
		<u>\$ 1,844,800</u>

See accompanying independent auditor’s report and notes to the financial statements.

CRYSTAL LAKES ROAD AND RECREATION ASSOCIATION
SUPPLEMENTARY SCHEDULE OF ACTIVITY IN MEMBERS' EQUITY
For the Year Ended May 31, 2018

	Designated			Undesignated			Total Equity
	Major R&R Reserve	Fishing	Total Designated	Invested in Property & Equipment	Operations	Total Undesignated	
Beginning balance	\$ 746,613	\$ 53,869	\$ 800,482	\$ 385,585	\$ 444,681	\$ 830,266	\$ 1,630,748
Net income	-	-	-	-	270,850	270,850	270,850
Revenues	262,193	96,583	358,776	-	(358,776)	(358,776)	-
Expenditures	(66,462)	(80,722)	(147,184)	133,870	13,314	147,184	-
Unrealized loss	-	-	-	-	4,774	4,774	4,774
Depreciation	-	-	-	(69,596)	69,596	-	-
Ending balance	<u>\$ 942,344</u>	<u>\$ 69,730</u>	<u>\$1,012,074</u>	<u>\$ 449,859</u>	<u>\$ 444,439</u>	<u>\$ 894,298</u>	<u>\$ 1,906,372</u>

See accompanying independent auditor's report and notes to the financial statements.