

**SHADYBROOK PROPERTY
OWNERS' ASSOCIATION**

**Accountant's Review Report
and
Financial Statements**

Year Ended December 31, 2018 and 2017

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of
Shadybrook Property Owners' Association
Bullard, TX

We have reviewed the accompanying financial statements of Shadybrook Property Owners' Association, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, except for the issue noted in the paragraph below, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Known Departure from Accounting Principles Generally Accepted in the United States of America

Management has omitted supplementary information about future major repairs and replacements of common property that accounting principles generally accepted in the United States of America require to be represented to supplement the basic financial statements. Such missing information, although not 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 operation, economic, or historical context. The results of our review of the basic financial statements are not affected by that missing information.


ACKER & COMPANY
Certified Public Accountants, PC
Tyler, Texas
June 11, 2019

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2018 and 2017

	<u>ASSETS</u>	
	<u>2018</u>	<u>2017</u>
Assets:		
Cash and Cash Equivalents	\$ 95,492	\$ 72,785
Accounts Receivable, net of Allowance for Bad Debts	514,824	499,342
Certificates of Deposit	12,890	14,799
Property and Equipment:		
Land	93,023	109,732
Clubhouse	19,250	19,250
Maintenance Building	40,000	40,000
Equipment	61,067	58,760
Total	213,340	227,742
Less: Accumulated Depreciation	(77,062)	(70,580)
Total Fixed Assets	136,278	157,162
Total Assets	<u>\$ 759,484</u>	<u>\$ 744,088</u>

LIABILITIES AND FUND BALANCE

Current Liabilities:		
Accounts Payable	\$ 5,613	\$ 6,500
Notes Payable-Current	1,681	1,754
Deposits	500	500
Deferred Revenue	2,732	1,154
Total Current Liabilities	10,526	9,908
Noncurrent Liabilities:		
Notes Payable-Noncurrent Portion	-	1,681
Total Noncurrent Liabilities	-	1,681
Total Liabilities	10,526	11,589
Fund Balance:		
Undesignated	736,068	717,700
Designated for Future Repairs and Replacement	12,890	14,799
Total Fund Balance	748,958	732,499
Total Liabilities and Fund Balance	<u>\$ 759,484</u>	<u>\$ 744,088</u>

See accompanying notes to financial statements and Independent Accountants' review report.

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	2018	2017
Revenues:		
Maintenance Fees	\$ 326,217	\$ 315,706
Road Fees	175,725	176,839
Late Fees	29,264	28,619
Reacquired Property	6,260	3,840
Other Revenue	21,035	17,024
Less: Bad Debt Expense	(300,895)	(276,117)
Total Revenues	<u>257,606</u>	<u>265,911</u>
Expenses:		
Road Expense	40,237	25,156
Contract Labor	19,850	14,925
Payroll Expenses	67,188	66,730
Utilities	38,924	41,653
Insurance	7,115	9,483
Maintenance & Repairs	18,085	20,641
Office Expense	11,989	9,958
Professional Fees	5,195	10,583
Depreciation Expense	6,482	6,150
Vehicle Expense	1,936	1,922
Telephone - Other	-	112
Taxes	4,254	3,803
Miscellaneous	4,371	8,714
Total Expenses	<u>225,626</u>	<u>219,830</u>
Net Income Before Other Income and Expenses	31,980	46,081
Other Income and Expenses:		
Interest Income	141	82
Interest Expense	(60)	(98)
Sale of Lots	(15,602)	(10,764)
Total Other Income and Expense	(15,521)	(10,780)
Net Income (Loss)	16,459	35,301
Fund Balance, Beginning of the Year as Previously Reported	<u>732,499</u>	<u>697,198</u>
Fund Balance, End of the Year	<u><u>\$ 748,958</u></u>	<u><u>\$ 732,499</u></u>

See accompanying notes to financial statements and Independent Accountants' review report.

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Net Income (Loss)	16,459	35,301
Adjustments to Reconcile Net Income to Net Cash Provided by Operations		
Depreciation Expense	6,482	6,150
Loss on Sale of Assets	15,602	10,764
Decrease (Increase) in Accounts Receivable	(15,482)	(16,484)
Decrease (Increase) in Prepaid Expense	-	6,722
Increase (Decrease) in Deferred Revenue	1,578	(9,643)
Increase (Decrease) in Accounts Payable	(887)	135
Total Adjustments	<u>7,293</u>	<u>(2,356)</u>
Net Cash Provided (Used) by Operating Activities	23,752	32,945
Cash Flows From Investing Activities:		
CDs Purchased/Cashed	1,909	(843)
Lot Sales	7,368	5,766
Purchase/Construction of Fixed Asset	(2,308)	-
Lots Acquired	<u>(6,260)</u>	<u>(3,840)</u>
Net Cash Used by Investing Activities	<u>709</u>	<u>1,083</u>
Cash Flows From Financing Activities:		
Repayments on Installment Notes	<u>(1,754)</u>	<u>(1,715)</u>
Net Cash Used by Financing Activities	<u>(1,754)</u>	<u>(1,715)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	22,707	32,313
Cash and Cash Equivalents at Beginning of Year	<u>72,785</u>	<u>40,472</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 95,492</u></u>	<u><u>\$ 72,785</u></u>
Supplemental Disclosures:		
Noncash Transactions:		
Property Received for Fees	\$ 6,260	\$ 3,840

See accompanying notes to financial statements and Independent Accountants' review report.

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

Note 1 – Nature of Organization and Summary of Significant Accounting Policies

Shadybrook Property Owners' Association was organized as a nonprofit corporation for the purpose of providing for the acquisition, construction, management and maintenance of the Association property. The Association consists of approximately 2,250 members and includes approximately 777 acres of land located in Cherokee County.

A summary of significant accounting policies used in the preparation of the accompanying financial statements is as follows:

Estimates

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

Property and Equipment

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2018 property not capitalized consists of sidewalks, access roads, improvements, and greenbelts. According to the Association governing documents, two-thirds of all property owners must approve dispositions of common real property. Property and equipment acquired by the Association by the developer is recorded at estimated fair value at the date of contribution. Use of common property is restricted to property owners and their guests.

Depreciation is calculated using the straight line method over the estimated useful lives of the various assets, as follows:

Buildings (Clubhouse)	25 years
Property and Equipment	5 to 7 years

Depreciation expense for 2018 was \$6,482 and for 2017 was \$6,150. Accumulated depreciation as of December 31, 2018 is \$77,062.

Cash

For the purpose of presentation in the statements of Cash Flows, cash and cash equivalents are defined as cash on hand and amount due from banks. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less.

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

Note 1 – Nature of Organization and Summary of Significant Accounting Policies (continued)

Federal Income Tax

The Association is recognized as a property owners' association under Section 528 of the Internal Revenue Code. Membership income is exempt from taxation; however the Association is taxed on its nonmembership income, such as interest income.

The statute of limitations for income tax filings with taxing authorities is generally open for years beginning in 2015 through 2018.

Accounts Receivable

Accounts receivable consists of member assessments for maintenance and road fees. These fees provide funds for the Association's operating expense, future capital acquisitions, and major repairs and replacements. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are two years or more delinquent. Any excess assessments at year end are retained by the Association for the use in the succeeding year. Fees are assessed on January 1st each year and are due by March 31st. Late fees are assessed on April 1st. All fees are recognized as income at the time they are assessed.

At December 31, 2018 and 2017 the Association's accounts receivable from member assessments totaled \$2,142,107 and \$2,079,757, with an allowance for bad debts in the amount of \$1,628,001 and \$1,580,616 respectively.

Allowance for Bad Debts

The Association provides an allowance for bad debts based upon collection analysis, prior experience, and management's assessment of the collectability of existing accounts.

Note 2 – Future Major Repairs and Replacement

The Association's governing documents require that a separate capital expenditure fund of \$20,000 be budgeted annually and funded by certificate of deposit in a federally insured institution. Any expenditure of this fund requires a two-thirds vote by the board of directors. In 2016, the board of directors redeemed a maintenance CD to pay for an air conditioning unit for the office. As of December 31, 2018, Certificates of Deposit totaled \$12,890.

The Association has not conducted a study to determine the useful lives of the components of common property and estimates of the costs of minor repairs and replacements that may be required in the future, nor has the board of directors developed a plan to fund those needs.

The Association has funded major Road repairs and replacement expenditures from annual road fee assessments as the expenditures were incurred. Excess funds are being accumulated, based on current and estimate future costs. Actual expenditures may vary from these estimates.

SHADYBROOK PROPERTY OWNERS' ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

Note 3 – Lease Agreement

The Association has a non-cancelable operating lease for a copy machine with a monthly payment of \$85 a month ending July 2020. Lease expense is \$1,243 for 2018.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of 1 year as of December 31, 2018 for the term of the leases and in aggregate are:

	<u>Copy Machine</u>
2019	\$ 1,020
2020	595
	<u>\$ 1,615</u>

Note 4 – Notes Payable

Notes payable at December 31, 2018 are as follows:

	Current	Long-Term	Total
8/16/16 Note payable to Austin Bank, 2.15% interest, monthly principal and interest payments of \$151	\$ 1,681	\$ -0-	\$ 1,681

Note 5 – Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 11, 2019, the date the financial statements were available to be issued.