

Owners Association at Country Lakes, Inc.
(A Texas Non-Profit Corporation)

Financial Statements

December 31, 2017

Canady & Canady P. C.
Certified Public Accountants

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4317 Cedar Springs # C
Dallas, TX 75219

Independent Auditor's Report

To the Board of Directors of
The Owners Association at Country Lakes, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Owners Association at Country Lakes, Inc., which comprise the balance sheet as of December 31, 2017, and related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended.

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.

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Independent Auditor's Report (Continued)

To the Board of Directors of
The Owners Association at Country Lakes, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Owners Association at Country Lakes, Inc. as of December 31, 2017, 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 **Supplementary Information on Future Major Repairs and Replacements** on page 10-11 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.

Canady & Canady P. C.

Dallas, Texas
August 1, 2018

Owners Association at Country Lakes, Inc.
Balance Sheet
December 31, 2017

	Operating Fund	Replacement Fund	Total
Assets			
Cash	\$ 326,617	\$ 91,638	\$ 418,255
Assessment receivables (less allowance for doubtful accounts of \$21,287)	27,386		27,386
Prepaid expense	1,306		1,306
Total Assets	\$ 355,309	\$ 91,638	\$ 446,947
 Liabilities and Fund Balances			
Accounts payable and accrued expenses	\$ 23,229	\$ -	\$ 23,229
Due to affiliate	2,100		2,100
Assessments received in advance	126,751	-	126,751
Total Liabilities	152,080	-	152,080
Fund Balances	203,229	91,638	294,867
Total Liabilities and Fund Balances	\$ 355,309	\$ 91,638	\$ 446,947

See accompanying notes to financial statements.

Owners Association at Country Lakes, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Revenues			
Assessment	\$ 607,059	\$ 27,491	\$ 634,550
Working contribution	7,763		7,763
Oil and gas lease	-	967	967
Interest income	1,315	404	1,719
Other income	22,931		22,931
Total Revenues	639,068	28,862	667,930
Expenses			
Landscape	221,080		221,080
Utilities	101,298		101,298
Maintenance supplies and repairs	83,453		83,453
Personnel	78,464		78,464
Pool and amenities	53,479		53,479
Office and administrative	33,522		33,522
Management fee	31,594		31,594
Capital expenditures	-	23,341	23,341
Insurance	14,441		14,441
Committees	5,751		5,751
Professional expenses	3,784		3,784
Total Expenses	626,866	23,341	650,207
Excess of Revenues over Expenses	12,202	5,521	17,723
Fund Balances			
Beginning of year	161,756	92,467	254,223
Prior period adjustment	22,921		22,921
Permanent fund transfer	6,350	(6,350)	-
Ending of year	<u>\$ 203,229</u>	<u>\$ 91,638</u>	<u>\$ 294,867</u>

See accompanying notes to financial statements.

Owners Association at Country Lakes, Inc.
Statement of Cash Flows
For the Year ended December 31, 2017

Cash Flows From Operating Activities

Excess of revenues over expenses	\$ 12,202	\$ 5,521	\$ 17,723
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Prior period adjustment	22,921		22,921
Permanent fund transfer	6,350	(6,350)	
(Increase) decrease in:			
Assessment receivable	(23,152)		(23,152)
Prepaid insurance	(140)		(140)
(Decrease) increase in:			
Accounts payable and accrued expenses	(6,747)		(6,747)
Due to affiliate	1,350		1,350
Assessments received in advance	1,828		1,828
	<u>14,612</u>	<u>(829)</u>	<u>13,783</u>
Net cash provided (used) by operating activities			
	<u>14,612</u>	<u>(829)</u>	<u>13,783</u>
Net increase (decrease) in cash and cash equivalents			
	14,612	(829)	13,783
Cash and cash equivalents, beginning of year	312,005	92,467	404,472
Cash and cash equivalents, end of year	<u>\$ 326,617</u>	<u>\$ 91,638</u>	<u>\$ 418,255</u>

Supplemental Disclosures:

Income Tax Paid	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

Owners Association at Country Lakes, Inc.
Notes to Financial Statements
December 31, 2017

Note 1 - Organization

Owners Association at Country Lakes, Inc. (the Association) is a Texas non-profit corporation incorporated on April 3, 2001 for the purpose of improving, beautifying, maintain, managing and operating the Common Area. The Association is comprised of 1,094 residential units and is located in Denton, TX.

Note 2 - Date of Management's Review

In preparing the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through August 1, 2018, the date the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies

Funds

The Association uses fund accounting which requires funds allocated for future major repairs and replacements be classified separately from funds available for general operations. 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 the general operations of the Association.

Replacement Fund – This fund is used to account for financial resources designated for future repairs and replacements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby income is recognized when earned and costs and expenses are recognized when the obligations are incurred.

Cash and Cash Equivalents

Cash includes cash and cash equivalents of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase.

The Association maintains its cash balances in financial institutions located in Houston, Texas. Accounts at the institutions are secured by the Federal Deposit Insurance Corporation (FDIC) under the Federal Government's Transaction Account Guarantee Program up to \$ 250,000. As of December 31, 2017, all the cash balance is insured by FDIC.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Owners Association at Country Lakes, Inc.
Notes to Financial Statements
December 31, 2017

Note 3 - Summary of Significant Accounting Policies (Continued)

Assessments

Association members are subject to semi-annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit members. Any excess assessments at year end are retained by the Association for use in the succeeding year. Income received in advance is deferred and amortized over the period to which it relates.

Assessments Received in Advance

Assessments received in advance at the current balance sheet date represent payment received from association members during the current year which relate to maintenance assessments for the subsequent year.

Fair Value of Financial Instruments

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

Note 4 - Assessments Receivable

Assessments receivable from the homeowners consists of maintenance assessments billed prior to December 31, 2017. Accounts are deemed delinquent when payment is not received within 30 days of billing. Accounts are charged to operations when they are deemed uncollectible based upon periodic reviews of aging and collections. The allowance for doubtful account at December 31, 2017 is \$21,287.

Note 5 - Federal Income Tax

The Association is subject to federal income tax and must file an annual tax return. It has the option to file as a regular corporation, subject to general corporate tax provisions, or it can elect to file as a corporation pursuant to Internal Code Section 528. Under Section 528, the Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. This section imposes a flat 30% tax on the Associations' "non-exempt function" income which consists primarily of interest income. The Association evaluates both options and makes an annual election in order to minimize its income taxes. For year ended December 31, 2017, the Association filed as a homeowners' Association and the tax liability is \$0.

The Association adopted the new accounting for uncertainty for income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for year 2015, 2016 and 2017 remain open to examination by the Internal Revenue Service. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Owners Association at Country Lakes, Inc.
Notes to Financial Statements
December 31, 2017

Note 6- State Franchise Tax

The Association is exempt from Texas franchise tax as specified under Section 171.082 of the Texas Code as a homeowners' association.

Note 7 - Future Major Replacement

The Association's governing documents require funds be accumulated for future major repairs and replacements. The board is funding for major repairs and replacements over the remaining useful lives of the components based on a study providing estimates of current replacements costs and considering amounts previously accumulated in the replacement fund. Accumulated funds are held in separate savings account and generally are not available for expenditures for normal operations.

Funds are being accumulated in the capital fund based on estimates of future needs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 8- Prior Period Adjustment

A prior period adjustment of \$22,291 was made to estimate the allowance for doubtful accounts from prior years. The adjustment has no effect on the federal income tax.

Note 9 – Subsequent Events

Upon evaluation, the Association notes that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.

Owners Association at Country Lakes, Inc.
Supplementary Information on Future Major
Repairs and Replacements
For the Year Ended December 31, 2017
(Unaudited)

The Association had a study performed in September 2012, which estimated the remaining useful lives, and the replacement costs of the components of common property. The estimates were made by the outside consultants in consultation with contractors, suppliers, manufacturers, published manuals, appraisal handbooks and valuation guides as well as the experience and accumulated data of the outside consultants. Replacement costs were based on the estimated costs to replace the common property components. The following table is based on the study and presents significant information about components of common property.

Components	Quantity	Estimated Remaining Useful Life	Future Cost
Site			
Replace vinyl ranch perimeter fencing	3,200 lin. Ft.	10	\$ 125,580
Replace wood surface of walking trail bridges	1 lot	5	3,000
Stone mortar repairs at Country Lakes Blvd bridge	1 lot	0	2,000
Repair/replace concrete walking trail	3,000 sq. ft.	0	12,600
Repair/replace cabana parking lot	1 lot	2	2,500
Replace irrigation controllers	5 ea	2	3,750
Clean/repaint ornamental iron at bridges	1 lot	4	2,000
Repair/replace brick perimeter fence	1,885 lin. Ft.	9	11,310
Repair stone pilasters	1 lin. Ft	0	4,000
Building Exterior			
Replace cabana shingle roof	2,200 sq. ft.	12	6,600
Repair/repaint wood siding	1 lot	2	750
Wash/stain cedar framing	1 lot	2	3,500
Building Interior			
Replace restroom fixtures	1 lot	17	2,000
Replace cabana ornamental light fixtures	15 ea	10	5,626
Mechanical			
Replace electrical panels and access control	1 lot	15	8,800
Replace lake fountains and pumps	3 ea	4	13,500
Replace lake fountains and pumps	3 ea	8	13,500
Replace lake fountains and pumps	3 ea	3	13,500
Replace pool filtration equipment	1 lot	1	2,650
Replace deep well pump at southwest lakes	1 ea	2	5,500
Replace irrigation pumps at southwest lakes	1 lot	8	6,500
Subtotal			<u>\$ 249,166</u>

Owners Association at Country Lakes, Inc.
Supplementary Information on Future Major
Repairs and Replacements
For the Year Ended December 31, 2017
(Unaudited)

Components	Quantity	Estimated Remaining Useful Life	Future Cost
Amenities			
Replace playground equipment	1 lot	21	38,000
Resurface pool and spa	3,250 sq. ft.	4	16,250
Repair/replace concrete Kool-Deck	5,025 sq. ft.	2	5,779
Replace wood benches at pool area	6 ea	4	3,000
Replace pool furniture	1 lot	10	4,000
Replace perimeter metal fencing around pool	520 lin. Ft.	19	21,840
Repaint perimeter metal pool fence	520 lin. Ft.	5	2,860
Replace ornamental pole lights	13 ea	12	10,400
Other			
Reserve Study Updates	1 lot	4	1,500
Contingency	1 lot	0	2,800
Subtotal			<u>106,429</u>
Total			<u><u>\$ 355,595</u></u>

For the year ended December 31, 2017, \$91,638 is allocated to replacement fund.