

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.

REPORT ON EXAMINATION

YEAR ENDED DECEMBER 31, 2018



Stephen M. Tilson, PC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
The Courtyard Homeowners Association, Inc.
Austin, Texas

We have audited the accompanying financial statements of The Courtyard Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2018, and the related statement of revenues, expenses, and 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 the 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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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Courtyard Homeowners Association, Inc. as of December 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 information on future major repairs and replacements of common property at the end of the report 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.

Stephen M. Tilson PC

Austin, Texas
July 11, 2019

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

CASH - WAB - OPERATING	\$	53,334	
CASH - WAB - RESERVE		98,667	
PREPAID INSURANCE		3,346	
TOTAL CURRENT ASSETS		155,346	\$ 155,346

FIXED ASSETS

PLAYSCAPE		25,553	
BOAT DOCK UPGRADES		5,004	
KAYAK RACK		13,587	
ACCUMULATED DEPRECIATION		(34,157)	
TOTAL FIXED ASSETS		9,987	9,987

TOTAL ASSETS		165,333	\$ 165,333
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LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

PREPAID ASSESSMENTS	\$	47,504	
ACCOUNTS PAYABLE		943	
BUILDER DEPOSITS		8,000	
TOTAL CURRENT LIABILITIES		56,447	\$ 56,447

TOTAL LIABILITIES		56,447	
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MEMBERS' EQUITY

UNRESTRICTED MEMBERS' EQUITY		(8,963)	
RESTRICTED MEMBERS' EQUITY - RESERVES		98,667	
EXCESS OF REVENUES OVER EXPENSES		19,183	
TOTAL MEMBERS' EQUITY		108,887	108,887

TOTAL LIABILITIES AND MEMBERS' EQUITY		165,333	\$ 165,333
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See accountant's report.

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2018

REVENUES

ASSESSMENTS		\$ 94,500
INTEREST INCOME		971
KEY / REMOTE DEPOSIT		75
LATE FEE		805
RENTAL - PARKING		9,350
RENTAL - KAYAK		4,075
RESALE CERTIFICATE / TRANSFER FEE		3,125
TOTAL REVENUES		\$ 112,901

EXPENSES

ADMINISTRATIVE EXPENSES

ACCOUNTING AND AUDIT	\$ 2,775	
COPIES	1,134	
LEGAL	668	
MANAGEMENT FEES	14,388	
MEETING EXPENSE	1,014	
POSTAGE / DELIVERY	560	
PRINTING - OTHER	368	
SOCIAL EVENTS	2,154	
WEBSITE HOSTING	739	
DEPRECIATION EXPENSE	2,737	
		\$ 26,535

PROPERTY EXPENSES

ACCESS CONTROL - MAINTENANCE	678	
CUSTODIAN SUPPLIES / SERVICES	1,817	
FIREWISE PROGRAM	12,648	
IRRIGATION REPAIR / MAINTAINANCE	1,031	
KEYS / LOCKS	47	
LANDSCAPE - ENHANCEMENTS	595	
LANDSCAPE - MAINTENANCE	20,178	
LANDSCAPE - SEASONAL PLANTS	595	
LANDSCAPE - TREE MAINTENANCE	5,362	
PARK GREENBELT MAINTENANCE	1,194	
		44,144

TAXES & INSURANCE

INSURANCE - D&O	1,204	
INSURANCE - F&EC OR PACKAGE	3,387	
TAXES - PROPERTY	829	
		5,420

EXPENSES SUBTOTAL		\$ 76,099
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See accountant's report.

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2018
(CONTINUED)

EXPENSES SUBTOTAL	\$	76,099	
<i>UTILITY EXPENSES</i>			
DRAINAGE	\$	1,238	
ELECTRIC		2,506	
WATER/SEWER		<u>5,689</u>	
			9,434
<i>CAPITAL & RESERVE EXPENSES</i>			
STREETS / ALLEYS		<u>8,185</u>	
			<u>8,185</u>
TOTAL EXPENSES			<u>\$ 93,718</u>
EXCESS OF REVENUES OVER EXPENSES			19,183
MEMBERS' EQUITY			
MEMBERS' EQUITY - BEGINNING OF YEAR			<u>89,704</u>
MEMBERS' EQUITY - END OF YEAR			<u><u>\$ 108,887</u></u>

See accountant's report.

**THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018**

OPERATING ACTIVITIES:

EXCESS OF REVENUES OVER EXPENSES \$ 19,183

DEPRECIATION 2,737

CHANGES IN OPERATING ASSETS AND LIABILITIES

(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE 1,731

(INCREASE) DECREASE IN PREPAID INSURANCE 130

INCREASE (DECREASE) IN PREPAID ASSESSMENTS 6,243

INCREASE (DECREASE) IN ACCOUNTS PAYABLE (4,504)

INCREASE (DECREASE) IN BUILDER DEPOSITS 5,000

INCREASE (DECREASE) DUE TO PRIOR PERIOD ADJUSTMENTS (1,330)

NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES \$ 29,190

INVESTING ACTIVITIES:

NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES \$ -

FINANCING ACTIVITIES:

NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES \$ -

NET INCREASE (DECREASE) IN CASH \$ 29,190

CASH AND EQUIVALENTS - BEGINNING OF YEAR \$ 122,811

CASH AND EQUIVALENTS - END OF YEAR \$ 152,001

SUPPLEMENTAL DISCLOSURE:

INCOME TAX PAID \$ -

See accountant's report.

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1: NATURE OF ORGANIZATION

The Association was incorporated in October 1979 under the Texas Non-profit Corporation Act for the purpose of operating, managing, maintaining and administering the affairs of The Courtyard Homeowners Association, Inc. for the social welfare and benefit of the lot owners and to preserve and maintain the common property. This is a 315 residential lot subdivision located in Austin, Travis County, Texas. The owner of each lot pays an annual assessment to the Association.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of 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 at the date of the financial statements. Accordingly, actual results could differ from those estimates.

Basis of Accounting

These audited financial statements have been prepared on the accrual basis method of accounting. Using this method of accounting, revenues and accounts receivable are recognized when earned regardless of when cash is received. Revenues received prior to being earned are reported as prepaid assessments. Expenses and accounts payable are recognized when the obligation is incurred regardless of when cash is disbursed. Expenses paid before being obligated are reported as prepaid expenses.

Member Assessments

Association members are subject to annual assessments in the amount of \$300 to provide funds for the Association's operating expenses, future capital expenses, and major repairs and replacements. Assessments receivable at December 31, 2018 represent assessments due from homeowners. Prepaid assessments at December 31, 2018 represent assessments paid in advance by homeowners. Excess assessments are retained by the Association for use in the subsequent year.

Common Property

The developer deeded certain real property to the Association that consisted primarily of greenbelts, walks, hike and bike trails, boat docks and a boat/trailer storage area. An appraisal of the common property was not performed at the time of transfer; therefore, the original cost of the property is not determinable, and the assets are not reflected on the Association's financial statements at December 31, 2018. Common property improvements and personal property purchased by the Association are capitalized and depreciated using the straight-line method of depreciation over the useful life of the assets. The Association is responsible to preserve and maintain the common property.

COURTYARD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Depreciation expense in 2018 was \$2,737. Depreciable asset balances are as follows:

<u>Asset</u>	<u>Cost</u>	<u>Life</u>	<u>Accumulated depreciation</u>
Playscape	\$25,553	15	\$27,276
Boat dock upgrades	5,004	20	3,002
Kayak rack	<u>13,587</u>	20	<u>6,879</u>
Total	<u>\$44,144</u>		<u>\$34,157</u>

Cash and Cash Equivalents

The Association considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of money market funds with readily determinable fair values and are stated in the financial statements at fair market value.

Note 3: FEDERAL INCOME TAXES

The Association has elected to be taxed under Internal Revenue Code § 528 which allows the Association to exclude exempt function income from gross income. Exempt function income consists of membership dues or other fees the Association receives from members as owners of the Association's services. Taxable income arises from amounts received from nonmembers of the Association including interest earned on reserve funds. The Association had no federal income tax liability for 2018.

The Association is required to file either Form 1120, U.S. Corporation Income Tax Return, or Form 1120-H, U.S. Income Tax Return for Homeowners Associations. These tax returns are subject to examination by the Internal Revenue Service for a three year period from the later of the original due date of the return or the date the tax return was filed. As a result, the Association's federal income tax returns for 2015, 2016 and 2017 are open to examination by the Internal Revenue Service as of December 31, 2018.

Note 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$98,667 as of December 31, 2018, are held in a separate account and are generally not available for operating purposes.

COURTYARD HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

The current funding program is based on an analysis performed by the board of directors in January 2008. The purpose of the analysis was to estimate the remaining useful lives and replacement costs of the common property components. The estimates were based on future estimated replacement costs. The data included in the un-audited supplementary information on future major repairs and replacements is based on the analysis. Actual major repair and replacement expenditures may vary from estimated amounts and the variation may be material. Should amounts accumulated in the replacement fund not be adequate to meet future needs, the Association has the right, subject to member approval, to increase the regular assessment or levy special assessments. Otherwise, major repairs and replacements may be delayed until funds are available.

Note 5: SUBSEQUENT EVENTS

The Association has evaluated subsequent events through July 11, 2019, the date the financial statements were available to be issued, and no events have occurred from the balance sheet date through that date that would impact the financial statements.

SUPPLEMENTARY INFORMATION

THE COURTYARD HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
DECEMBER 31, 2018

The board of directors conducted an analysis in January 2008 to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on estimates obtained to repair or replace a component and will be revised periodically. Replacement costs do not take into consideration the effects of inflation.

The following information is based on the analysis and presents significant information about the components of common property. The board has not designated the funds accumulated in the reserve account to specific components.

COMPONENT	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	DESIGNATED FOR REPAIRS/REPLACEMENT DECEMBER 31, 2018
<u>Traffic Light Entrance</u>			
Stone Monument Sign	14	\$ 10,000	
Sprinklers, Timers, UG Piping	9	5,000	
Stone Retaining Walls	9	7,000	
Lights, Timers, UG Conduit	12	5,000	
Trees	9	2,000	
Subtotal		\$ 29,000	
<u>Stop Sign Exit</u>			
Lights, Timers, UG Conduit	12	\$ 5,000	
Sprinklers, Timers, UG piping	9	5,000	
Stone Retaining Walls	9	3,500	
Trees	9	2,000	
Subtotal		\$ 15,500	
<u>Parade Ridge Island</u>			
Sprinklers, Timers, UG Piping	9	\$ 3,000	
Trees	9	1,000	
Subtotal		\$ 4,000	
<u>Trailer Storage Lot</u>			
Asphalt Parking Lot	34	\$ 25,000	
Wooden Boat Dock	9	10,000	
Gate (Manual)	0	3,000	
Retaining Wall	9	3,500	
Subtotal		\$ 41,500	
<u>Park</u>			
Boardwalk / Dock	17	\$ 8,000	
Asphalt Road & Parking Lot	34	35,000	
Bull Creek dredge	0	25,000	
Playscape	6	5,000	
Toilet House and Fixtures	14	10,000	
Access gate	9	5,000	
Gate Mechanism (Electric)	11	3,500	
Storage Shed	9	3,000	
Pavilion & Picnic Tables (2)	14	3,000	
Kayak Rack & Fence	14	5,000	
Gate Code Key Pad	6	1,500	
Lights	9	2,000	
Trees	9	2,000	
Open Picnic Tables (2)	9	1,000	
Cooking Grills (2) each	4	500	
Basketball Goal	3	300	
Cooking Grill - small (1)	4	200	
Subtotal		\$ 110,000	
Grand Total		\$ 200,000	\$ 98,667

See accountant's report.