

SKYBROOK HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2019



SKYBROOK HOMEOWNERS ASSOCIATION

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Independent Auditor's Report

To the Board of Directors
Skybrook Homeowners Association
Charlotte, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Skybrook Homeowners Association (the "Association"), which comprise the balance sheet as of December 31, 2019, and the related statements of revenue, 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 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 Association'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 Association'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Skybrook Homeowners Association as of December 31, 2019, and the results of their operations and their cash flows for the year then ended in accordance 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 the future major repairs and replacements 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.

Bernard Robinson & Company, L.L.P.

Charlotte, North Carolina
December 2, 2020

SKYBROOK HOMEOWNERS ASSOCIATION**Balance Sheet****December 31, 2019**

Assets

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets:			
Cash and cash equivalents	\$ 444,950	\$ 190,904	\$ 635,854
Certificates of deposit	-	452,231	452,231
Assessments receivable, net	-	-	-
Interest receivable	-	1,343	1,343
Total Assets	<u>\$ 444,950</u>	<u>\$ 644,478</u>	<u>\$1,089,428</u>

Liabilities and Fund Balances

Liabilities:			
Accounts payable	\$ 9,077	\$ -	\$ 9,077
Prepaid assessments	11,405	-	11,405
Interfund due to/from	<u>(128,494)</u>	<u>128,494</u>	<u>-</u>
Total Liabilities	<u>(108,012)</u>	<u>128,494</u>	<u>20,482</u>
Fund Balances:			
Fund balances	<u>552,962</u>	<u>515,984</u>	<u>1,068,946</u>
Total Liabilities and Fund Balances	<u>\$ 444,950</u>	<u>\$ 644,478</u>	<u>\$1,089,428</u>

SKYBROOK HOMEOWNERS ASSOCIATION
Statement of Revenue, Expenses and Changes in Fund Balances
Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Operating Revenues:			
Homeowner assessments	\$ 409,955	\$ -	\$ 409,955
Townhome assessments	113,295	-	113,295
Phase 10 maintenance assessments	117,432	-	117,432
Interest income	-	4,444	4,444
Late fee income	8,140	-	8,140
Other income	6,338	1,850	8,188
Total Revenue	<u>655,160</u>	<u>6,294</u>	<u>661,454</u>
Operating Expenses:			
General and administrative	43,210	-	43,210
Utilities	45,098	-	45,098
Insurance	5,294	-	5,294
Maintenance	7,150	21,875	29,025
Contract services	24,516	-	24,516
Grounds maintenance and materials	101,249	-	101,249
Landscape services	325,321	-	325,321
Management fees	55,141	-	55,141
Total Expenses	<u>606,979</u>	<u>21,875</u>	<u>628,854</u>
Revenue over (under) expenses	48,181	(15,581)	32,600
Fund balances, beginning	547,994	488,352	1,036,346
Transfers	<u>(43,213)</u>	<u>43,213</u>	<u>-</u>
Fund balances, ending	<u>\$ 552,962</u>	<u>\$ 515,984</u>	<u>\$1,068,946</u>

SKYBROOK HOMEOWNERS ASSOCIATION
Statement of Cash Flows
Year Ended December 31, 2019

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities:			
Revenue over (under) expenses	\$ 48,181	\$ (15,581)	\$ 32,600
Change in allowance for uncollectible assessments	12,370	-	12,370
Adjustments to reconcile revenue over (under) expenses to net cash provided by (used in) operating activities:			
(Increase) decrease in:			
Assessments receivable	5,947	-	5,947
Interest receivable		(1,343)	(1,343)
Prepaid expenses	-	-	-
Due to (due from) interfund	10,943	(10,943)	-
Increase (decrease) in:			
Accounts payable	(9,920)	-	(9,920)
Prepaid assessments	(46,745)	-	(46,745)
Net cash provided by (used in) operating activities	<u>20,776</u>	<u>(27,867)</u>	<u>(7,091)</u>
Cash flows from investing activities:			
Transfer to/from reserves	(43,213)	43,213	-
Proceeds from maturity of certificates of deposit	-	-	-
Purchase of certificates of deposit	-	(452,231)	(452,231)
Net cash used in investing activities	<u>(43,213)</u>	<u>(409,018)</u>	<u>(452,231)</u>
Net decrease in cash and cash equivalents	(22,437)	(436,885)	(459,322)
Cash and cash equivalents, beginning	<u>467,387</u>	<u>627,789</u>	<u>1,095,176</u>
Cash and cash equivalents, ending	<u>\$ 444,950</u>	<u>\$ 190,904</u>	<u>\$ 635,854</u>

SKYBROOK HOMEOWNERS ASSOCIATION

Notes to Financial Statements

NOTE 1 - ORGANIZATION

Skybrook Homeowners Association (the 'Association') was organized in November 1999, under the laws of the State of North Carolina for the purpose of administering the operations and maintenance of the common property within the development. The Association consists of 1,154 single family homes in Mecklenburg and Cabarrus Counties, North Carolina.

The Association consists of 1,154 homeowners paying annual or quarterly dues, and a special ten-year assessment that started in 2020 for the support of the community's golf course. Additionally, the main association ("Skybrook") includes 3 townhome sub-associations: Skybrook Townhomes, Signature Townhomes and The Ridge. These three associations collect their own dues and remit the appropriate portion to the main association.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association presents 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 the general operation of the Association. Disbursements from this fund are generally at the discretion of the Board of Directors and property manager.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements. Disbursements from this fund are generally made only for designated purposes.

Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, the Association includes all cash accounts and other time deposits with a maturity of three months or less as cash and cash equivalents.

SKYBROOK HOMEOWNERS ASSOCIATION
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Member Assessments and Assessments Receivable

Association members are subject to a annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Annually assessments are recognized as revenue when due and invoiced.

Assessments receivable at the balance sheet date represent assessments due from Association owners. The Association performs a regular assessment of the collectability of individual accounts. A reserve is provided for homeowners who are in foreclosure or bankruptcy proceedings, depending on the conditions of the proceedings and any other information available at the time. The Board of Directors has reserved approximately \$12,400 for uncollectible accounts at December 31, 2019.

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose past due assessments meet specified criteria set by the Board of Directors. Attorney's fees are assessed against homeowners upon whom liens are filed and become incorporated in the amount due. Attorney fees, late fees, and fines are included in income in the year assessed.

Interest Income

Interest income is allocated to the operating and reserve funds in proportion to the interest-bearing deposits of each fund. As of December 31, 2019, all interest has been accrued on reserve funds and therefore allocated to the reserve funds.

Income Taxes

Homeowners associations may be taxed either as a homeowners association or as a regular corporation. The Association elected to be taxed as a homeowners association. Under that election, the Association generally is taxed only on nonexempt income, such as interest, at a flat rate of 30%. Exempt income consists primarily of membership assessments, fines, and late fees. Expenses related to the nonexempt income offset in 2019, thus there was no income taxes for that year.

It is the Association's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified during 2019.

SKYBROOK HOMEOWNERS ASSOCIATION

Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of 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. Actual results could differ from those estimates.

Deferred Adoption of FASB ASC 606

On June 3, 2020, the FASB issued guidance (ASU 2020-05) that defers the effective dates of the revenue recognition standard (ASC 606) for entities that have not yet issued financial statements adopting the standards. The Association has elected to defer implementation of the standard, and plans on adopting FASB ASC 606 during the subsequent year.

Subsequent Events

The Association has performed an evaluation of subsequent events through December 2, 2020, which is the date the financial statements were available to be issued.

NOTE 3 - MANAGEMENT SERVICES

Cedar Management Group, the managing agent for the Association, provides various services to the Association as authorized by the Board of Directors. Services include, but are not limited to, accounting services, collection of assessments, violation inspections, late fees and fines, accounts payable services, and general consulting to the Association.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents allow for the accumulation of funds for future repairs and replacements. Accumulated funds, which aggregate approximately \$515,984, at December 31, 2019, are held in separate accounts and generally are not available for expenditures for normal operations.

In prior years, the Association had funded actual major repair and replacement expenditures from excess operating fund assessments as expenditures were incurred. During the current year, the Association adopted a program to begin accumulating funds for estimated future major repairs and replacements. The funding program was based on a study performed by Criterium-Giles Engineers in September 2018 to estimate the remaining useful lives and the replacement costs of the common property components. The funding programs current reserve funding rate, the board choosing alternative 1, was \$43,213 per annum with increases starting in 2023 and then adjusting again in 2027.

SKYBROOK HOMEOWNERS ASSOCIATION

Notes to Financial Statements

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENTS (Continued)

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, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available. If the funds needed for major repairs or replacements are more than the reserve fund balance, the Association has over \$450,000 available in the operating fund at December 31, 2019 to absorb these costs.

NOTE 5 - DEPOSITS AND INVESTMENTS

The Association deposits include cash on deposit and money market accounts with commercial financial institutions. Investments consist of three certificates of deposit with a fair value of \$452,231 as of December 31, 2019, representing cost plus accrued interest to date. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Association from time to time may have amounts on deposit in excess of the insured limits.

The Association is subject to the following risks:

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, The Association's deposits may not be returned. The Association's deposits at each commercial bank are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. At December 31, 2019, the uninsured balances were \$588,085, of which \$385,854 related to uninsured amounts in the Association's checking or money market accounts.

Interest rate risk: Interest rate risk is the risk that the Association may face should interest rate variances affect the fair value of investments. The Association minimizes the risk by investing only in certificates of deposit.

Investment Type	Fair Value	Properties of Debt Securities	
		Average Maturity	Ratings
Certificates of Deposit	452,231	24 months	N/A

The Association has recognized \$1,343 in interest income due upon maturity of the Certificates of Deposit. Total interest income is \$4,444 as of December 31, 2019.

SKYBROOK HOMEOWNERS ASSOCIATION

Notes to Financial Statements

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Association is party to various contracts for the management, security, and operation of its common elements. The duration of the contracts are generally monthly, and in most cases, 12 months or less.

NOTE 7 - LEGAL MATTERS

The Association has been sued by a homeowner in Cabarrus County who contends that the Association should be responsible for maintenance of the sidewalk in front of their home. It is the opinion of the Association's lawyers that the lawsuit appears to have little merit. Because the Association considers the likelihood that the homeowner will prevail as "remote", under Generally Accepted Accounting Principles (GAAP) "remote" contingent liabilities are not required to be reflected in the financial statements. Additionally, due to various factors the Association is unable to estimate the amount of such a liability. However, if under the unlikely case the lawsuit is successful, this would give rise to significant liability to the Association.

SUPPLEMENTARY INFORMATION

SKYBROOK HOMEOWNERS ASSOCIATION

Supplementary Information on Future Major Repairs and Replacements (UNAUDITED)

December 31, 2019

The Association hired Criterium - Giles Engineers to perform a full reserve study with field inspection in April 2018. The study was performed to estimate the useful lives and future replacement costs of the components of common property. Replacement costs take into account the estimated effect of inflation at various rates through the date that the components will require repair or replacement. The following is significant information about the components of the common property.

<u>Component</u>	<u>Estimated Remaining Useful Life (years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Current Replacement Funds</u>
Site and ground	0-40		
Building Exterior	7-20		
Amenities	5-20		
		* <u>\$ 715,805</u>	** <u>\$ 515,984</u>

*Please see the reserve study completed by Criterium - Giles Engineers for break down of Estimated Current Replacement Cost by component. This amount represents the funds needed to replace all components over the next 20 years.

**Current replacement fund balance unallocated by component.