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Paradise Lakes Country Club

Financial Statements and
Supplementary Information with
Independent Accountant's Review Report

Years Ended December 31, 2018 and 2017

Paradise Lakes Country Club

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Paradise Lakes Country Club

Balance Sheets

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	2018			2017		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Assets						
Assets						
Cash and cash equivalents	\$ 203,656	\$ 261,145	\$ 464,801	\$ 222,499	\$ 169,900	\$ 392,399
Dues and assessments receivable	5,267	-	5,267	8,595	-	8,595
Other receivables	19,758	-	19,758	24,066	-	24,066
Interfund receivable (payable)	34,346	(34,346)	-	(24,897)	24,897	-
Property and equipment, net	477,649	-	477,649	517,306	-	517,306
Land inventory	30,051	-	30,051	30,051	-	30,051
Total assets	<u>\$ 770,727</u>	<u>\$ 226,799</u>	<u>\$ 997,526</u>	<u>\$ 777,620</u>	<u>\$ 194,797</u>	<u>\$ 972,417</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 15,663	\$ -	\$ 15,663	\$ 40,483	\$ -	\$ 40,483
Accrued expenses	8,805	-	8,805	7,797	-	7,797
Total liabilities	24,468	-	24,468	48,280	-	48,280
Fund balances	<u>746,259</u>	<u>226,799</u>	<u>973,058</u>	<u>729,340</u>	<u>194,797</u>	<u>924,137</u>
Total liabilities and fund balances	<u>\$ 770,727</u>	<u>\$ 226,799</u>	<u>\$ 997,526</u>	<u>\$ 777,620</u>	<u>\$ 194,797</u>	<u>\$ 972,417</u>

Paradise Lakes Country Club

Statements of Revenues, Expenses, and Changes in Fund Balances

Years Ended December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	2018			2017		
	Operating	Replacement	Total	Operating	Replacement	Total
	Fund	Fund		Fund	Fund	
Revenues						
Member dues	\$ 419,925	\$ -	\$ 419,925	\$ 418,931	\$ -	\$ 418,931
Assessments	-	32,475	32,475	-	32,595	32,595
Other income, net	15,536	-	15,536	7,240	-	7,240
Firewise protection grant income	15,000	-	15,000	-	-	-
Gain on sale of lots	9,589	-	9,589	2,900	-	2,900
Interest income	288	646	934	-	212	212
Total revenues	460,338	33,121	493,459	429,071	32,807	461,878
Expenses						
Labor and labor-related	155,159	-	155,159	174,126	-	174,126
Utilities and fuel	57,944	-	57,944	52,052	-	52,052
Depreciation	54,450	-	54,450	77,835	-	77,835
Repairs and maintenance	51,962	-	51,962	28,527	-	28,527
Outside services	32,735	-	32,735	25,773	-	25,773
Professional fees	21,689	-	21,689	4,157	-	4,157
Insurance	15,069	-	15,069	14,061	-	14,061
Supplies	12,595	-	12,595	21,823	-	21,823
Office expense	9,820	-	9,820	5,123	-	5,123
Internet and telephone	7,395	-	7,395	5,463	-	5,463
Copying costs	7,333	-	7,333	5,110	-	5,110
Security	5,603	-	5,603	2,831	-	2,831
Landscaping	3,499	-	3,499	700	-	700
Tax and licenses	2,971	-	2,971	5,311	-	5,311
Other employee costs	1,591	-	1,591	1,287	-	1,287
Bad debt expense	1,470	-	1,470	188	-	188
Infrastructure and maintenance services	-	1,119	1,119	-	2,564	2,564
Postage	1,103	-	1,103	929	-	929
Miscellaneous	1,031	-	1,031	8,319	-	8,319
Firewise protection expense	-	-	-	15,770	-	15,770
Total expenses	443,419	1,119	444,538	449,385	2,564	451,949
Excess (deficit) of revenues over expenses	16,919	32,002	48,921	(20,314)	30,243	9,929
Fund balances – beginning of year	729,340	194,797	924,137	749,654	164,554	914,208
Fund balances – end of year	<u>\$ 746,259</u>	<u>\$ 226,799</u>	<u>\$ 973,058</u>	<u>\$ 729,340</u>	<u>\$ 194,797</u>	<u>\$ 924,137</u>

Paradise Lakes Country Club

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

(See Independent Accountant's Review Report)

	2018			2017		
	Operating Fund	Replacement Fund	Total	Operating Fund	Replacement Fund	Total
Cash flows from operating activities						
Excess (deficit) of revenues over expenses	\$ 16,919	\$ 32,002	\$ 48,921	\$ (20,314)	\$ 30,243	\$ 9,929
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided (used) by operating activities:						
Depreciation	54,450	-	54,450	77,835	-	77,835
(Increase) decrease in assets:						
Dues and assessments receivable	3,328	-	3,328	(197)	-	(197)
Other receivables	4,308	-	4,308	(13,640)	-	(13,640)
Interfund receivable (payable)	(59,243)	59,243	-	5,526	(5,526)	-
Increase (decrease) in liabilities:						
Accounts payable	(24,820)	-	(24,820)	21,241	-	21,241
Accrued expenses	1,008	-	1,008	3,277	-	3,277
Net cash provided (used) by operating activities	(4,050)	91,245	87,195	73,728	24,717	98,445
Cash flows from investing activities						
Purchase of property and equipment	(14,793)	-	(14,793)	(79,111)	-	(79,111)
Net cash used in investing activities	(14,793)	-	(14,793)	(79,111)	-	(79,111)
Net increase (decrease) in cash and cash equivalents	(18,843)	91,245	72,402	(5,383)	24,717	19,334
Cash and cash equivalents – beginning of year	222,499	169,900	392,399	227,882	145,183	373,065
Cash and cash equivalents – end of year	\$ 203,656	\$ 261,145	\$ 464,801	\$ 222,499	\$ 169,900	\$ 392,399

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 1 – Organization and Operations

Paradise Lakes Country Club (the Club) is a homeowners' association that maintains a camping residential development consisting of 325 individually owned lots. The Club provides maintenance services and recreational facilities for members, including an indoor pool, games and media room and a commercial kitchen.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accounting records are maintained on the accrual basis.

Fund accounting – The Club uses fund accounting whereby financial resources, such as operating funds and funds designated for infrastructure, 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 Club.

Replacement fund – This fund is used to account for financial resources designated for major repairs and replacements and capital improvement. Expenditures from this fund must receive approval by the Board of Directors.

Cash and cash equivalents – Cash, checking accounts, and certificates of deposit are considered to be cash equivalents. The Club maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. The Club has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Dues and assessments receivable – Receivables consist of dues and assessments receivable. Club members are subject to annual assessments to provide funds for the Club's operating expenses, future capital acquisitions, and major repairs and replacements. Dues and assessments receivable are recorded in the Club's balance sheet at their net realizable value. Net realizable value is equal to the gross amount of receivables less an estimated allowance for doubtful accounts. On a continuing basis, the Board analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off to bad debt expense.

There was no allowance for bad debts at December 31, 2018 and 2017.

Property and equipment – The Club's assets consist of approximately 80 acres of land, a common hall with kitchen, swimming pool, gazebo, playground, office, and maintenance shop. Capitalized improvements to the common assets, property, and equipment are recorded at cost. Additions, improvements, and expenditures that exceed \$2,500 and add materially to the productive capacity or extend the life of an asset are capitalized. Expenditures for repair and maintenance are expensed as incurred. Depreciation is recorded using straight-line and accelerated methods over expected useful lives of 5 to 39 years.

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 2 – Summary of Significant Accounting Policies - (Continued)

Federal income tax – The Club is taxed as a regular corporation, subject to the provisions of Internal Revenue Code Section 277. As such, income from members is segregated from income derived from non-members and both are taxed at regular corporate rates. However, taxation of the excess of membership income over membership expenses can be deferred for one year if certain elections are made. Any net membership losses may only be carried forward to offset membership income of future tax periods.

The Company may carry forward any net operating losses to reduce future taxable income. The Company generated taxable income of \$16,919 and taxable loss of \$20,314 during the years ended December 31, 2018 and 2017, which was offset by a net operating loss carryforward. The Company had a net operating loss carryforward of approximately \$430,000 and \$447,000 as of December 31, 2018 and 2017, respectively. The net operating loss can be carried forward indefinitely if not previously used. As of December 31, 2018, tax returns for the prior three fiscal years remain subject to examination by major tax jurisdictions.

The net operating loss carryforward disclosed above could provide a deferred tax asset of approximately \$90,000 and \$93,000 using a marginal tax rate of 21% in 2018 and 2017. However, due to uncertainties in the future taxable income of the Company, the amount has been fully reserved with a valuation allowance.

Revenue recognition – The Club recognizes revenue from members' assessments in the applicable assessment time period. Revenue from other sources is recognized when the product or service is provided in accordance with the accrual basis of accounting.

Interest income – Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Use of estimates – The preparation of financial statements in accordance 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 disclosure 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.

Reclassifications – Certain reclassifications have been made to the prior year's financial statements to conform to the current year's financial statement presentation.

Subsequent events – In preparing these financial statements, the Club has evaluated events and transactions for potential recognition or disclosure through September 25, 2019 the date the financial statements were available to be issued.

Paradise Lakes Country Club

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 3 – Cash and Cash Equivalents

Cash and cash equivalents consists of the following at December 31:

	2018			2017		
	Operating Funds	Replacement Funds	Total	Operating Funds	Replacement Funds	Total
Cash on hand (petty cash and undeposited funds)	\$ 5,252	\$ -	\$ 5,252	\$ 3,450	\$ -	\$ 3,450
Cash in checking	45,857	-	45,857	89,509	-	89,509
Capital reserves, CDs and savings	152,547	261,145	413,692	129,540	169,900	299,440
	<u>\$ 203,656</u>	<u>\$ 261,145</u>	<u>\$ 464,801</u>	<u>\$ 222,499</u>	<u>\$ 169,900</u>	<u>\$ 392,399</u>

Note 4 – Property and Equipment

Property and equipment include the following at December 31:

	2018	2017
Building and improvements	\$ 1,008,181	\$ 1,008,181
Infrastructure	414,984	414,984
Equipment	256,701	241,908
Furniture and fixtures	14,793	14,793
Other assets	907	907
	1,695,566	1,680,773
Less accumulated depreciation	<u>(1,217,917)</u>	<u>(1,163,467)</u>
	<u>\$ 477,649</u>	<u>\$ 517,306</u>

Depreciation expense totaled \$54,450 and \$77,835 for the years ended December 31, 2018 and 2017, respectively.

Note 5 – Related Party Transactions

Prepaid dues from Board members and employees totaled \$0 and \$611 at December 31, 2018 and 2017, respectively.

Notes to Financial Statements

December 31, 2018 and 2017

(See Independent Accountant's Review Report)

Note 6 – Future Major Repairs and Replacements

The Club's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate \$226,799 and \$194,797 at December 31, 2018 and 2017, respectively, are held in separate accounts and can be used as an interfund receivable or payable for operating purposes.

An internal study was done in 2017 to estimate the remaining useful lives and the replacement costs of the common property components. The study was last updated in May of 2014. The Club 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 Club has the right, subject to Board approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

Note 7 – Prospective Accounting Change

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, "Revenue from Contracts with Customers", which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 and subsequent amendments outline a five-step process for revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Major provisions include determining which goods and services are distinct and represent separate performance obligations, how variable consideration (which may include change orders and claims) is recognized, whether revenue should be recognized at a point in time or over time and ensuring the time value of money is considered in the transaction price. This guidance may be adopted using either a full retrospective or modified retrospective approach. Application is required for annual periods beginning after December 15, 2018.

The Company plans to adopt ASU 2014-09 effective January 1, 2019 using the modified retrospective method. Under this method, the new standard will be applied only to the most current period presented in the financial statements with the cumulative effect recognized as of the date of initial application. The Company continues to evaluate the impact of the new accounting guidance on its financial statements and disclosures. The Company's adoption of ASU 2014-09 is not anticipated to have a material impact on the results of operations or financial position; however, the Company's assessment is not complete.

Supplementary Information

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Schedule of Future Major Repairs and Replacements

Years Ended December 31, 2018 and 2017

The Club conducted an internal study in 2018 to estimate the remaining useful lives and replacement costs of several property components. The estimated future replacement costs are based on estimated costs at May 10, 2014 and include the effects of inflation and interest rates at three percent annually over the next thirty years from that date.

The following tables are based on the study and its analysis by the management of the Club and presents significant information about the components of common property as of December 31, 2018 and 2017. (Amounts are generally rounded).

Components	Remaining Useful Lives	Estimated Replacement Costs at December 31, 2018	Components of Fund Balance at December 31, 2017		Year Ended December 31, 2018		Components of Fund Balance at December 31, 2018
			December 31, 2017	Assessments	Interest Income	Expenses	
Site	0-36	\$ 2,644,603	\$ 156,771	\$ 25,901	\$ 515	\$ -	\$ 183,187
Amenities	0-12	228,535	10,564	2,238	45	(1,119)	11,728
Roofing	41	140,400	8,710	1,375	27	-	10,112
Common Interior Finishes	0-16	113,400	7,034	1,111	22	-	8,167
Electrical Systems	0-1	60,000	3,722	588	12	-	4,322
Plumbing Systems	0-16	53,600	3,325	525	10	-	3,860
HVAC Systems	0-14	44,500	2,760	436	9	-	3,205
Structure	0-1	12,000	743	117	2	-	862
Fire Detection & Suppression	9	11,000	683	108	2	-	793
Miscellaneous Mechanical	1	7,800	485	76	2	-	563
		<u>\$ 3,315,838</u>	<u>\$ 194,797</u>	<u>\$ 32,475</u>	<u>\$ 646</u>	<u>\$ (1,119)</u>	<u>\$ 226,799</u>

Schedule of Future Major Repairs and Replacements

Years Ended December 31, 2017 and 2016

Components	Remaining Useful Lives	Estimated Replacement Costs at December 31, 2017	Components of Fund Balance at		Year Ended December 31, 2017			Components of Fund Balance at December 31, 2017
			December 31, 2016	December 31, 2016	Assessments	Interest Income	Expenses	
Site	0-37	\$ 2,644,603	\$ 130,605	\$ 25,997	\$ 169	\$ -	\$ 156,771	
Amenities	0-13	228,535	10,866	2,247	15	(2,564)	10,564	
Roofing	42	140,400	7,321	1,380	9	-	8,710	
Common Interior Finishes	0-17	113,400	5,912	1,115	7	-	7,034	
Electrical Systems	0-1	60,000	3,128	590	4	-	3,722	
Plumbing Systems	0-17	53,600	2,795	527	3	-	3,325	
HVAC Systems	0-15	44,500	2,320	437	3	-	2,760	
Structure	0-1	12,000	625	117	1	-	743	
Fire Detection & Suppression	10	11,000	574	108	1	-	683	
Miscellaneous Mechanical	2	7,800	408	77	-	-	485	
		<u>\$ 3,315,838</u>	<u>\$ 164,554</u>	<u>\$ 32,595</u>	<u>\$ 212</u>	<u>\$ (2,564)</u>	<u>\$ 194,797</u>	