

Stonecrest Villas of Tega Cay Condominium Owners

Financial Statements

December 31, 2017

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To Management
Stonecrest Villas of Tega Cay Condominium Owners
Tega Cay, South Carolina

We have reviewed the accompanying financial statements of Stonecrest Villas of Tega Cay Condominium Owners, which comprise the statement of assets, liabilities and fund balances—cash basis as of December 31, 2017, and the related statement of revenues, expenses, and changes in fund balances—cash basis for the year then ended, and the related notes to the financial statements and supplementary information on future major repairs (p. 10). 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 the cash basis of accounting; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

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 the cash basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, 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 the cash basis of accounting.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

Davies, Goldstein : Associates, CPA's, PLLC

Matthews, North Carolina
July 13, 2018

Stonecrest Villas of Tega Cay Condominium Owners
Statement of Assets, Liabilities and Fund Balances - Cash Basis
December 31, 2017

Assets	Operating Fund	Reserve Fund	Settlement Fund	Total
Current Assets				
Cash and Cash Equivalents	\$14,711	\$189,722	\$ -	\$204,433
Certificate of Deposits, at fair value	-	45,286	-	45,286
Total Current Assets	<u>\$14,711</u>	<u>\$235,008</u>	<u>-</u>	<u>\$249,719</u>
Long-Term Assets				
Certificates of Deposit, at fair value	-	116,470	-	116,470
Total Long-Term Assets	<u>-</u>	<u>116,470</u>	<u>-</u>	<u>116,470</u>
Total Assets	<u>\$ 14,711</u>	<u>\$ 351,478</u>	<u>\$ -</u>	<u>\$ 366,189</u>
Total Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Balances	<u>14,711</u>	<u>351,478</u>	<u>-</u>	<u>366,189</u>
Total Liabilities and Fund Balances	<u>\$ 14,711</u>	<u>\$ 351,478</u>	<u>\$ -</u>	<u>\$ 366,189</u>

See accompanying notes and accountant's report

Stonecrest Villas of Tega Cay Condominium Owners
Statement of Revenues, Expenses and Changes in Fund Balances - Cash Basis
For the Year Ended December 31, 2017

Revenues	Operating Fund	Reserve Fund	Settlement Fund	Total
Residential Assessments	\$ 287,970	\$ -	\$ -	\$ 287,970
Other Income	696	-	524,769	525,465
Interest Income	-	1,756	-	1,756
Total Revenues	288,666	1,756	524,769	815,191
Expenses				
Buildings and Grounds Expense				
Landscape	64,373	-	-	64,373
Utilities	42,261	-	-	42,261
Repairs and Maintenance	15,074	-	-	15,074
Clubhouse	9,860	-	-	9,860
Pool	7,250	-	-	7,250
Pest Control	5,388	-	-	5,388
Repair of Construction Defects	-	-	409,165	409,165
Reserve Expenses				
Window Replacements	-	21,466	-	21,466
Pool Furniture	-	2,966	-	2,966
Total Buildings and Grounds Expense	144,206	24,432	409,165	577,803
Administrative Expense				
Insurance	46,494	-	-	46,494
Management Fees	18,000	-	-	18,000
Office Expenses	2,732	-	-	2,732
Professional Services	2,451	-	-	2,451
Community Functions	169	-	-	169
Total Administrative Expense	69,846	-	-	69,846
Total Expenses	214,052	24,432	409,165	647,649
Excess (Deficit) of Revenues over Expenses	\$ 74,614	\$ (22,676)	\$ 115,604	\$ 167,542
Fund Balances, Beginning of Year				
Fund Balances, Beginning of Year	\$ 141,418	\$ 295,457	\$ (238,228)	\$ 198,647
Excess (Deficit) of Revenues over Expenses	74,614	(22,676)	115,604	167,542
Assessments Allocated to Future Repairs and Replacements	(77,467)	77,467	-	-
Interfund transfers	(123,854)	1,230	122,624	-
Fund Balances, End of Year	\$ 14,711	\$ 351,478	\$ -	\$ 366,189

See accompanying notes and accountant's report

Stonecrest Villas of Tega Cay Condominium Owners
Notes to Financial Statements
For the Year Ended December 31, 2017

Note 1 - Organization and Nature of Business

Stonecrest Villas of Tega Cay Condominium Owners (the "Association") is a homeowners' association, incorporated in the state of South Carolina in 2007. The Association is responsible for the operation and maintenance of the common property of the Association's 86 units in 22 buildings located in Tega Cay, South Carolina.

Note 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of these financial statements.

Basis of Accounting

The Association's financial statements are prepared using the cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. This method recognizes revenues when cash is received and expenses when they are paid.

Fund Accounting

Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature:

- Operating Fund – This fund is used to account for financial resources available for general operations of the Association.
- Reserve Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable of \$2,660 represent fees due from unit owners as of December 31, 2017. The Board of Directors believes the receivable will be collected. These receivables are not included in the financial statements, in accordance with the cash basis of accounting used by the Association.

At the discretion of the Board of Directors, the Association can retain legal counsel and place liens on the properties of homeowners who are delinquent.

Cash and Cash Equivalents

The Association considers cash on hand, deposits in bank and money market funds as cash and cash equivalents. All amounts are FDIC insured.

Stonecrest Villas of Tega Cay Condominium Owners
Notes to Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies – continued

Certificates of Deposit

Certificates of deposit (CDs) are carried at fair value. As of December 31, 2017, the Association held four CDs with interest rates ranging from 0.75% to 1.2% and with maturities ranging from 12 months to 36 months.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2017, the Association elected to file its income taxes as a homeowners' association using Form 1120H under Section 528 of the Internal Revenue Code. There was no income tax liability as of and for the year ended December 31, 2017.

The Association has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdiction of South Carolina where it operates. The Association believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Association's financial condition, results of operations, or cash flows. Accordingly, the Association has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions at December 31, 2017.

The Association is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of the date of this report, the Association believes it is no longer subject to income tax examinations for years prior to 2014.

Common Property

Real property, common areas, and the related improvements to such property are not recorded as fixed assets in the Association's financial statements because each individual owner owns an undivided pro-rata interest in the common property. Such common property can only be disposed of as set forth in the governing documents. The Association is responsible for maintaining the common property.

Use of 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stonecrest Villas of Tega Cay Condominium Owners
Notes to Financial Statements
For the Year Ended December 31, 2017

Note 3 - Management Services

During the year ended December 31, 2017, Henderson Properties was the contracted managing agent for the Association and supervises repair, maintenance, collection and insurance services. The contract can be renewed annually.

Note 4 – Settlement Fund

In 2013, the Association received a settlement from the developer to repair construction defects and drainage problems of common area buildings. The final repairs were completed in 2017 and the excess of total amounts paid over settlement proceeds was absorbed by the operating fund. There are no further repairs expected related to this settlement.

Note 4 - Subsequent Events

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

Note 5 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations. In 2018, the Association's board contracted with an outside firm to conduct a study to estimate the remaining useful lives and the replacement costs of the components of common property. The study, including the assumptions and projections, are not subject to review procedures or included in the basic financial statements.

Currently the reserves are being funded monthly based on amounts indicated by the reserve fund study described in the supplemental info presented on page 10. This study contains estimates and assumptions about future events and accordingly, the current program may not be sufficient to meet all future replacement costs. If additional funds are needed, the Association has the right, subject to approval by the majority of members, to increase operating assessments, levy special assessments or delay replacement until funds are available.

Supplementary Information

(Refer to Independent Accountants' Review Report)

**Stonecrest Villas of Tega Cay Condominium Owners
 Supplementary Information on Future Major Repairs and Replacements
 As of December 31, 2017
 (Refer to Independent Accountants' Review Report)**

The information presented herein, and the related assumptions were outside of the review scope as indicated in the independent accountants' report.

In January 2018, the Association's Board of Directors engaged a consulting firm to update a formal study (performed previously in 2015) to determine the remaining lives of the components of common property and current estimates of major repairs and replacements that may be required in the future. The estimates were based on future replacement costs. Actual expenditures may vary from the estimates of this study and those variations may be material.

The following table is based on the study and presents information about the components of common property.

<u>Component</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Future Replacement Costs</u>
Exterior building elements	2 to 14	\$2,211,650
Property site elements	1 to 30	833,154
Clubhouse elements	1 to 17	230,599
Pool elements	1 to 14	<u>106,316</u>
 Totals		 <u>\$3,381,719</u>

Current year fund balance as of December 31, 2017 is \$357,478. The reserve study suggests increasing contributions to maintain adequate funds. If funds are not sufficient at the time repairs are needed, the Association has the right, subject to approval outlined in the covenants, to increase operating assessments, levy special assessments or delay replacement until funds are available.