

***NBRC PROPERTY OWNERS ASSOCIATION, INC.  
DBA  
RIVER CHASE PROPERTY OWNERS ASSOCIATION***

***FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION***

***FOR THE YEAR ENDED  
DECEMBER 31, 2017***

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
NBRC Property Owners Association, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the NBRC Property Owners Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statements of revenues, expenses, and changes in fund balances, and cash flow 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 the NBRC Property Owners Association, Inc. as of December 31, 2017 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 12 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.

## **Report on Summarized Comparative Information**

We have previously audited the River Chase Property Owners Association, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armstrong, Vaughan & Associates, P.C.

April 26, 2018

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	Operating Fund	Legal Fund	Replacement Fund	2017 Total	2016 Total
<b>ASSETS</b>					
<i>Current Assets:</i>					
Cash and Cash Equivalents	\$ 263,801	\$ 2,881	\$ 2,603	\$ 269,285	\$ 191,641
Investments	-	97,950	87,568	185,518	183,916
Accounts Receivable	2,843	-	-	2,843	9,523
Allowance for Doubtful Accounts	(1,000)	-	-	(1,000)	(5,990)
Prepaid Expenses	14,566	-	-	14,566	11,645
<i>Total Current Assets:</i>	<u>280,210</u>	<u>100,831</u>	<u>90,171</u>	<u>471,212</u>	<u>390,735</u>
<i>Property and Equipment:</i>					
Landscaping Equipment	11,000	-	-	11,000	-
Accumulated Depreciation	(1,179)	-	-	(1,179)	-
<i>Total Property and Equipment:</i>	<u>9,821</u>	<u>-</u>	<u>-</u>	<u>9,821</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>\$ 290,031</u>	<u>\$ 100,831</u>	<u>\$ 90,171</u>	<u>\$ 481,033</u>	<u>\$ 390,735</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<i>Liabilities:</i>					
Accounts Payable	\$ 1,943	\$ -	\$ -	\$ 1,943	\$ 6,573
Prepaid Assessments	134,149	-	-	134,149	89,319
Spectrum Collections	-	-	-	-	397
Federal Income Tax Payable	228	-	-	228	228
Other Payables	-	-	-	-	1,500
<i>Total Liabilities</i>	<u>136,320</u>	<u>-</u>	<u>-</u>	<u>136,320</u>	<u>98,017</u>
<i>Fund Balance:</i>					
Accumulated Other Comprehensive Income					
Unrealized Gains (Losses) on Investments	-	(2,078)	(1,860)	(3,938)	(5,540)
Unrestricted	153,711	102,909	92,031	348,651	298,258
<i>Total Fund Balance</i>	<u>153,711</u>	<u>100,831</u>	<u>90,171</u>	<u>344,713</u>	<u>292,718</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 290,031</u>	<u>\$ 100,831</u>	<u>\$ 90,171</u>	<u>\$ 481,033</u>	<u>\$ 390,735</u>

The accompanying notes are an integral part of these statements.

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	Operating Fund	Legal Fund	Replacement Fund	2017 Total	2016 Total
<b>REVENUES</b>					
Member Assessments	\$ 250,220	\$ -	\$ -	\$ 250,220	\$ 250,405
Resale Certificates and Transfer Fees	52,875	-	-	52,875	5,300
Miscellaneous Income	23,085	-	-	23,085	6,230
Community Center Rentals	4,425	-	-	4,425	4,075
Recovery of Bad Debt	4,037	-	-	4,037	-
Late Fees	2,880	-	-	2,880	-
Interest and Dividends	-	2,248	2,008	4,256	1,174
<b>TOTAL REVENUES</b>	<u>337,522</u>	<u>2,248</u>	<u>2,008</u>	<u>341,778</u>	<u>267,184</u>
<b>EXPENSES</b>					
<i>Administrative Expenses:</i>					
Management Services	49,500	-	-	49,500	48,750
Insurance	35,546	-	-	35,546	33,627
Information Technology	11,659	-	-	11,659	18,716
Legal and Professional Fees	11,470	-	-	11,470	8,654
Committee Expenses	9,202	-	-	9,202	3,609
Website	2,400	-	-	2,400	600
Meeting Expenses	2,234	-	-	2,234	1,140
Office Supplies	2,095	-	-	2,095	673
Miscellaneous	1,360	-	-	1,360	3,143
Depreciation Expense	1,179	-	-	1,179	-
Taxes	1,159	-	-	1,159	7,872
Bad Debt	-	-	-	-	275
<i>Total Administrative Expenses</i>	<u>\$ 127,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 127,804</u>	<u>\$ 127,059</u>

The accompanying notes are an integral part of these statements.

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE (CONT.)  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	Operating Fund	Legal Fund	Replacement Fund	2017 Total	2016 Total
<b>EXPENSES (CONT.)</b>					
<i>Common Area Expenses:</i>					
Landscape Maintenance	\$ 44,156	\$ -	\$ -	\$ 44,156	\$ 34,874
Utilities	21,067	-	-	21,067	23,284
Pool Maintenance and Repair	12,172	-	27,288	39,460	4,109
Other Common Area Expenses	11,413	-	14,889	26,302	4,530
Janitorial	8,422	-	-	8,422	10,843
Clubhouse and Rec Center Maintenance	7,949	-	-	7,949	4,425
Fence and Gate Repairs	3,929	-	-	3,929	11,163
Security	396	-	11,900	12,296	-
<i>Total Common Area Expenses</i>	<u>109,504</u>	<u>-</u>	<u>54,077</u>	<u>163,581</u>	<u>93,228</u>
<b>TOTAL EXPENSES</b>	<u>237,308</u>	<u>-</u>	<u>54,077</u>	<u>291,385</u>	<u>220,287</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenses</b>	100,214	2,248	(52,069)	50,393	46,897
<b>OTHER COMPREHENSIVE INCOME</b>					
Unrealized Holding Gains (Losses)	-	846	756	1,602	(5,540)
<b>TOTAL OTHER COMPREHENSIVE INCOME</b>	<u>-</u>	<u>846</u>	<u>756</u>	<u>1,602</u>	<u>(5,540)</u>
Transfers Between Funds	(54,078)	-	54,078	-	-
<b>Net Change in Fund Balance</b>	46,136	3,094	2,765	51,995	41,357
<b>BEGINNING FUND BALANCE</b>	<u>107,575</u>	<u>97,737</u>	<u>87,406</u>	<u>292,718</u>	<u>251,361</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 153,711</u>	<u>\$ 100,831</u>	<u>\$ 90,171</u>	<u>\$ 344,713</u>	<u>\$ 292,718</u>

The accompanying notes are an integral part of these statements.

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(WITH COMPARATIVE TOTALS FOR 2016)

	Operating Fund	Legal Fund	Replacement Fund	2017 Total	2016 Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Excess (deficiency) of revenues over (under) expenses	\$ 100,214	\$ 2,248	\$ (52,069)	\$ 50,393	\$ 46,897
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (used) by operating activities:					
Depreciation Expense	1,179	-	-	-	-
(Increase) Decrease in:					
Accounts Receivable (Net)	1,689	-	-	1,689	(1,439)
Prepaid Expenses	(2,920)	-	-	(2,920)	1,994
Increase (Decrease) in:					
Accounts Payable	(4,630)	-	-	(4,630)	3,344
Prepaid Assessments	44,830	-	-	44,830	28,982
Spectrum Collections	(397)	-	-	(397)	(3)
Federal Income Tax Payable	-	-	-	-	(3,658)
Other Payables	(1,500)	-	-	(1,500)	1,500
Deposits	-	-	-	-	(250)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>138,465</u>	<u>2,248</u>	<u>(52,069)</u>	<u>87,465</u>	<u>77,367</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of Equipment	(11,000)	-	-	(11,000)	-
Maturity of Certificates of Deposit	-	-	-	-	52,231
Purchase of Investments	-	-	-	-	(189,456)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>(11,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(137,225)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Transfers Between Funds	(54,078)	-	54,078	-	-
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>(54,078)</u>	<u>-</u>	<u>54,078</u>	<u>-</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	73,387	2,248	2,009	77,644	(59,858)
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<u>190,414</u>	<u>633</u>	<u>594</u>	<u>191,641</u>	<u>251,499</u>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<u>\$ 263,801</u>	<u>\$ 2,881</u>	<u>\$ 2,603</u>	<u>\$ 269,285</u>	<u>\$ 191,641</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>					
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -	\$ 3,886
Interest Paid	\$ -	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these statements.



RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1 -- NATURE OF ORGANIZATION

NBRC Property Owners Association, Inc. (dba River Chase Property Owners Association, Inc.) was chartered under the laws of the State of Texas on April 12, 1999. The primary purpose of this nonprofit association is to maintain and administer the common facilities and to collect and disburse the assessments and charges of the Association. The Association is located in Comal County, Texas, and consists of 1,737 residential lots.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHOD/FUND ACCOUNTING

The Association maintains its books of account on the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

To ensure observance of limitations and restrictions on use of financial resources, 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.

Legal Fund -- This fund is used to account for financial resources set aside for legal challenges to the Association.

Replacement Fund -- This fund is used to accumulate financial resources designated for major repairs and replacement.

B. MEMBER ASSESSMENTS

Association membership consists of homeowner members and developer/builder members. Assessments are due annually. If the assessment is not paid within thirty (30) days after the due date, the assessment shall bear interest from the delinquency date at ten percent (18%) per annum or the maximum rate permitted by law, and the Association may bring an action at law against the Owner to pay the same or to foreclose the lien against the lot, and there shall be added to the amount of such assessment all reasonable expenses of collection including the costs of preparing and filing the complaint, reasonable attorney's fees and costs of suit.

The assessments levied by the Association shall be used for the purpose of promoting the recreation, health, safety, and welfare of the members, and in particular, for the improvement, maintenance and operation of common facilities devoted to this purpose and related to the use and enjoyment of the properties by the members, including maintenance of common area landscaping, common area sprinkler systems, common area fences, walls, and monuments, and any such other property, personal and real, that the Association may acquire or contract to maintain.

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

B. MEMBER ASSESSMENTS (CONT.)

The Association's policy for charging off uncollectible receivables is determined on a case by case basis. The Association vigorously pursues collection of receivables until ownership has changed through sale or foreclosure and the Association may no longer pursue collection of the previous owner.

As of December 31, 2017, an allowance for doubtful accounts has been established in the amount of \$1,000 per management's estimate.

Revenues from assessments are recognized in the period assessed. Assessments received in advance of the period assessed are deferred and reported on the balance sheet as prepaid assessments.

C. INVESTMENTS

The Association invests in debt and equity securities that are considered to be available-for-sale. They are reported at fair value. Realized holding gains and losses are included in earnings; unrealized holding gains and losses are reported in other comprehensive income.

D. FAIR VALUE MEASUREMENT

Fair value is defined as the price that would be received if an asset were sold in an orderly transaction between market participants at the measurement date. The inputs to fair value calculations are classified in three levels from most to least reliable as follows:

- Level 1 Unadjusted quoted prices for identical assets in active markets
- Level 2 Quoted prices for similar items in active markets, quoted prices for similar or identical items in inactive markets, or models whose inputs are observable
- Level 3 Management's assumption or expectations and other unobservable information

E. PROPERTY, PLANT AND EQUIPMENT

In accordance with industry standards, real and personal property donated by the developer are not capitalized on the Association's financial statements. In accordance with industry practice, common real property is not capitalized unless the Association can sell the property or it generates significant cash flows. Personal property purchased with Association funds, to which the Association holds title for a cost in excess of \$5,000, will be capitalized at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. Common property consists of, but is not limited to, entrance area, clubhouse, pool, gate, streets and landscaping.

F. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the statement of cash flows include amounts in checking and money market accounts.

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

G. 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.

H. FISCAL YEAR

The Association has a fiscal year beginning on January 1 of each year and ending on December 31.

I. SUBSEQUENT EVENTS

Subsequent events were considered through April 26, 2018, which is the date the financial statements were available to be issued.

NOTE 3 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS

LS Reserve Studies, LLC conducted a reserve study in 2016 to estimate the future costs of major repairs and replacements. The study also develops a plan to fund these costs through annual contributions to a replacement fund. The information presented in the supplementary information section of this report is based on this study.

During the year, the Association increased replacement reserves by \$58,702 and spent \$54,077 on repair and replacement projects, leaving a balance of \$90,171 in the replacement fund. Should the replacement funds be insufficient to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments or delay major repairs and replacements until funds are available.

NOTE 4 -- INVESTMENTS

The following tables summarize the investments by type and the gross unrealized holding gains and losses as of December 31, 2017:

	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>
Exchange Traded Funds:				
Legal	\$ 100,028	\$ 97,950	\$ -	\$ (2,078)
Replacement	89,428	87,568	-	(1,860)
	<u>\$ 189,456</u>	<u>\$ 185,518</u>	<u>\$ -</u>	<u>\$ (3,938)</u>

All of the Association's investments are recorded at fair value based on quoted market prices (level 1).

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2017

NOTE 5 -- FEDERAL INCOME TAXES

The Association elected to file as a homeowners association in 2017 in accordance with Internal Revenue Code Section 528 using IRS Form 1120-H. Under that section, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. In 2017, the Association had a tax expense of \$0.

Accounting principles generally accepted in the United States of America require the Association management to evaluate tax positions taken by the Association and recognize a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition as a liability (or asset) or disclosure in the financial statements. The Association is subject to routine examinations by taxing authorities; however, there are currently no examinations for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

NOTE 6 -- LITIGATION

Management is not aware of any additional pending or threatened litigation.

REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)

RIVER CHASE PROPERTY OWNERS ASSOCIATION, INC.  
 FUTURE MAJOR REPAIRS & REPLACEMENTS  
 DECEMBER 31, 2017  
 (UNAUDITED)

LS Reserve Studies, LLC performed a reserve study in 2016 to estimate the remaining useful lives of certain components of the Association's common property and the replacement or repair costs for these components. Estimated current replacement costs were computed using inflation rates to the time of replacement. The following estimates were extracted from the reserve study and estimates may vary significantly from actual costs.

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/17
Parking Lots and Concrete	0-12	\$ 419,653	\$ 90,171
Pedestrian Bridge	7-12	25,000	-
Fencing and Gates	0-4	19,150	-
Pool Elements	0-6	60,710	-
Clubhouse Elements	0-13	258,205	-
Rest Room Buildings	0-3	3,900	-
Park Amenities	0-13	74,000	-
Security	0-1	9,000	-
Other Items	0-2	12,600	-
		<u>\$ 882,218</u>	<u>\$ 90,171</u>
Reserve Study Projected Balances at Year End			<u>\$ 61,744</u>
Percent of Projected Balances on Hand			146%
Reserve Study Recommended Minimum Contributions:			
(Based on Original Projections)	2018	\$ 89,300	
	2019	\$ 91,533	
	2020	\$ 93,821	