

**Greatwood Community  
Association, Inc.**

**FINANCIAL STATEMENTS**

**December 31, 2016**

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**CONTENTS**

	<b><u>Page</u></b>
<b>Independent Auditors' Report</b>	1-2
<b><u>Financial Statements</u></b>	
Balance Sheet	4
Statement of Revenues, Expenses and Changes in Fund Balances	5
Statement of Cash Flows	6
Notes to Financial Statements	7-10
<b><u>Supplementary Information</u></b>	
Supplementary Information on Future Major Repairs and Replacements (Unaudited)	11

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## **Independent Auditors' Report**

To the Board of Directors  
Greatwood Community Association, Inc.

We have audited the accompanying financial statements of Greatwood Community Association, Inc., which comprise the balance sheet as of December 31, 2016, and the related statements of revenues, 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 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.

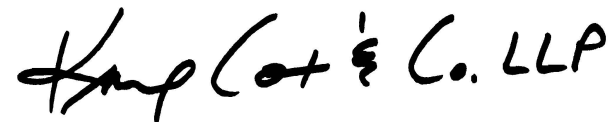
### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greatwood Community Association, Inc. as of December 31, 2016, 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 on page 11 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.

Handwritten signature in black ink that reads "Kamp Co. & Co. LLP". The signature is written in a cursive, flowing style.

Sugar Land, Texas  
July 6, 2017

## **FINANCIAL STATEMENTS**

# Greatwood Community Association, Inc.

## BALANCE SHEET

December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash and cash equivalents	\$ 4,204,530	\$ 1,181,672	\$ 5,386,202
Investments - certificate of deposit		204,683	204,683
Assessments receivable (net of allowance for doubtful accounts of \$90,000)	241,149		241,149
Due from Replacement Fund	570,502		570,502
Prepaid insurance	48,746		48,746
	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b>\$ 5,064,927</b>	<b>\$ 1,386,355</b>	<b>\$ 6,451,282</b>
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<b><u>Liabilities and Fund Balances</u></b>			
<b><u>Liabilities</u></b>			
Accounts payable	\$ 77,501	\$ 318,954	\$ 396,455
Assessments received in advance	1,275,471		1,275,471
Due to Operating Fund		570,502	570,502
Income taxes payable	1,878		1,878
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>1,354,850</b>	<b>889,456</b>	<b>2,244,306</b>
	<hr/>	<hr/>	<hr/>
<b><u>Fund Balances</u></b>			
Undesignated	3,452,499	496,899	3,949,398
Designated for approved services	257,578		257,578
	<hr/>	<hr/>	<hr/>
<b>Total Fund Balances</b>	<b>3,710,077</b>	<b>496,899</b>	<b>4,206,976</b>
	<hr/>	<hr/>	<hr/>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,064,927</b>	<b>\$ 1,386,355</b>	<b>\$ 6,451,282</b>
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See Notes to Financial Statements.

# Greatwood Community Association, Inc.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2016

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b>Revenues</b>			
Maintenance assessments	\$ 2,560,052	\$ 885,000	\$ 3,445,052
Legal fees	116,193		116,193
Collection costs	37,509		37,509
Other	25,154		25,154
Social/recreation/activity	15,338		15,338
Event sponsorships	12,056		12,056
Swim team income	3,500		3,500
Interest income	9,505	6,438	15,943
<b>Total Revenues</b>	2,779,307	891,438	3,670,745
<b>Expenses</b>			
Landscaping	1,072,735	321,219	1,393,954
Utilities	730,696		730,696
Safety and security	364,320	154,412	518,732
Pool management and maintenance	208,957	253,041	461,998
Legal fees	157,596		157,596
Fence, gates and monuments	52,309	147,786	200,095
Recreation/park	37,352	49,497	86,849
Management fees	116,247		116,247
Fountain/pond/lake maintenance	40,620	29,312	69,932
Decorations	76,345		76,345
Electrical repair	81,617		81,617
Insurance	64,414		64,414
Irrigation repair and maintenance	98,020	345,391	443,411
Concrete/sidewalks	11,030	12,920	23,950
Communications	54,619		54,619
Pest control	43,744		43,744
General repairs and maintenance	35,598		35,598
Management billing and collection costs	37,896		37,896
Administrative	29,100		29,100
Tennis court repair and maintenance	2,601	4,438	7,039
Bad debt	28,857		28,857
Janitorial supplies and maintenance	8,323		8,323
Audit and tax return	7,875		7,875
Property taxes and permits	5,354		5,354
Federal income taxes	2,928		2,928
<b>Total Expenses</b>	3,369,153	1,318,016	4,687,169
<b>Revenues (Under) Expenses</b>	(589,846)	(426,578)	(1,016,424)
<b>Fund Balances, Beginning</b>	4,260,451	962,949	5,223,400
Transfer between funds	39,472	(39,472)	
<b>Fund Balances, Ending</b>	\$ 3,710,077	\$ 496,899	\$ 4,206,976

See Notes to Financial Statements.

# Greatwood Community Association, Inc.

## STATEMENT OF CASH FLOWS

**For the Year Ended December 31, 2016**

	<b>Operating Fund</b>	<b>Replacement Fund</b>	<b>Total</b>
<b><u>Cash Flows from Operating Activities</u></b>			
Revenues (Under) Expenses	\$ (589,846)	\$ (426,578)	\$ (1,016,424)
<b>Adjustments to reconcile revenue over (under) expenses to cash provided (used) by operating activities:</b>			
(Increase) Decrease in:			
Assessments receivable	(11,500)		(11,500)
Other receivables	17,935		17,935
Due from Replacement Fund	(537,296)		(537,296)
Prepaid insurance	(33,078)		(33,078)
Federal income tax refund			
Increase (Decrease) in:			
Accounts payable	(58,500)	290,587	232,087
Assessments received in advance	24,374		24,374
Due to Operating Fund		537,296	537,296
Income taxes payable	497		497
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(1,187,414)</b>	<b>401,305</b>	<b>(786,109)</b>
<b><u>Cash Flows from Investing Activities</u></b>			
Purchase of certificate of deposit		(1,474)	(1,474)
<b>Net Cash Provided (Used) by Investing Activities</b>		<b>(1,474)</b>	<b>(1,474)</b>
<b><u>Cash Flows from Financing Activities</u></b>			
Interfund transfers	39,472	(39,472)	
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>39,472</b>	<b>(39,472)</b>	
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,147,942)	360,359	(787,583)
Cash and cash equivalents, beginning	5,352,472	821,313	6,173,785
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 4,204,530</b>	<b>\$ 1,181,672</b>	<b>\$ 5,386,202</b>
<b>Supplemental Disclosure</b>			
Income taxes paid	\$ 2,431	\$	2,431

See Notes to Financial Statements.



# **Greatwood Community Association, Inc.**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - NATURE OF ORGANIZATION**

Greatwood Community Association, Inc. (the "Association") is Texas non-profit corporation incorporated on August 3, 1989 for the purpose of providing management, maintenance, preservation and architectural control of the Association's common areas. The Association consists of 4,227 residential units and 2 developer units on 2,500 acres located in Fort Bend County, Texas.

### **NOTE 2 - DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 6, 2017, which is the date the financial statements were available to be issued.

### **NOTE 3 - 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 maintains 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 operations of the Association.

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

#### **Member Assessments**

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. An allowance for doubtful accounts of \$90,000 was made for estimated uncollectible receivables for the year ended December 31, 2016. Assessments for future major repairs and replacement in the current year were \$885,000.

# **Greatwood Community Association, Inc.**

## **NOTES TO FINANCIAL STATEMENTS**

### **Cash and Cash Equivalents**

Amounts included in cash and cash equivalents included cash on hand, unrestricted cash deposits with banks, investments in money market mutual funds, and short-term (three months or less) securities of governmental agencies.

### **Investments**

Investments consist of certificates of deposit and are reported at fair value.

### **Property and Equipment**

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual property owners in common and not by the Association. The Association capitalizes personal property to which it has title at cost. Related depreciation is computed using the straight-line method. No property and equipment existed at December 31, 2016.

### **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.

## **NOTE 4 - INCOME TAXES**

The Association is classified as a nonexempt organization for federal and state income tax purposes for the year ended December 31, 2016. It does not qualify as an exempt organization. The Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. In general, the Association is required to separate its taxable income and deductions into membership transactions, non-membership transactions, and capital transactions.

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. For the year ended December 31, 2016, the Association was taxed as a regular corporation and filed Form 1120. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership, such as interest earnings and earnings from commercial operations, at regular federal and state corporate rates.

# **Greatwood Community Association, Inc.**

## **NOTES TO FINANCIAL STATEMENTS**

The Association's federal and state tax returns are generally subject to examination by taxing authorities for three years after the returns are filed, and the Association's federal and state income tax returns for 2013 through 2015 remain open to examination.

### **NOTE 5 - CONTINGENCIES**

The Association is involved in claims and legal actions normally associated with homeowners associations, such as the collection of delinquent assessments and covenant compliance matters. In the opinion of management, the aggregate effect of these matters will not have a material adverse effect on the Association's financial position, results of operations or liquidity.

### **NOTE 6 - CONCENTRATION OF CREDIT RISK**

The Association maintains its cash balances at various financial institutions. Accounts at each institution are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits in excess of \$250,000 are not insured by the FDIC in case of failure of the bank.

### **NOTE 7 - INVESTMENTS**

As of December 31, 2016, the Association's investments consist of a certificate of deposit in the amount of \$204,683 with a maturity date of October 3, 2017.

### **NOTE 8 - FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The purpose of the annual assessments are to (1) provide the working capital necessary to meet the Association's annual operating expenses and (2) maintain a reserve or replacement of the general common elements of the Association. The Association has established a reserve for repair or replacement of the general common elements at December 31, 2016 and 2015.

The Association is not required to restrict any portion of the homeowner assessments for future major repairs and replacements. However, the Board of Directors recognizes the fact that future costs associated with major repairs and replacements should be anticipated. The Board of Director's policy is to transfer excess operating revenues and other deposits as deemed necessary to a reserve account, which will be used for repairs, including future repairs and

# **Greatwood Community Association, Inc.**

## **NOTES TO FINANCIAL STATEMENTS**

replacements. Accumulated funds are held in the separate reserve account and are generally not available for expenditures for normal operations.

### **NOTE 9 - RELATED PARTY TRANSACTIONS**

The President of the Board of Directors is a member of SecureCheck, LLC. The company received \$148,740 from the Association for equipment and services during 2016.

### **NOTE 10 - MUNICIPAL UTILITY DISTRICT AGREEMENT**

In 2015, the Municipal Utility District contributed \$4,200,000 to the Association to pay for services incurred in 2015, 2016 and 2017. The Parties agreed that the Association will spend the funds only for approved services and that the funds must be spent or allocated no later than December 31, 2017. The funds not spent or allocated for approved services after December 31, 2017 will be returned to the District no later than January 31, 2018. As of December 31, 2016, there was a total of \$257,758 in unspent funds. These monies have been reflected as designated fund balance on the balance sheet.

# Greatwood Community Association, Inc.

## SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

**December 31, 2016**  
**(Unaudited)**

A consulting firm conducted a study in January 2013 to estimate the remaining useful lives and replacement costs of the components of common property. Replacement costs were based on the estimated future costs to repair or replace the common property components at the rate of the study which included an annual inflation factor of 1.4%. Estimated future replacement costs have not been revised since that date.

The following table presents significant information about the components of common property.

<b>Component</b>	<b>Estimated Remaining Useful Life (Years)</b>	<b>Estimated Future Replacement Costs</b>
<b>Property Site Elements:</b>		
Concrete parking lots and sidewalks	0 to 1	\$ 550,466
Fences	0	255,847
Irrigation system	0 to 17	1,987,324
Light poles and fixtures	4	30,862
Pergolas	4	146,706
Perimeter walls	0	7,111,899
Playground equipment	0	1,323,154
Ponds	0 to 6	455,695
Tennis courts	0 to 25	1,162,538
<b>Recreation Center Elements:</b>		
Restrooms	0 to 10	60,146
Roofs	8 to 19	90,600
Windows and doors	11 to 22	74,861
<b>Pool Elements:</b>		
Concrete decks	0	185,766
Fences	0 to 6	194,943
Furniture	0	117,053
Mechanical equipment	0	218,061
Plaster finish	0 to 5	653,119
Water feature and slides	0 to 14	213,010
<b>Reserve Study Update</b>	0	5,100
		<u>\$ 14,837,150</u>

The balance in the Replacement Fund at December 31, 2016 is \$496,899.

The reserve study does not include the electrical equipment for the entrance gates. At this time, the Association has not determined the estimated future replacement costs nor the estimated remaining useful lives of the electrical equipment.