

**Greatwood Community
Association, Inc.**

FINANCIAL STATEMENTS

December 31, 2017

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Certified Public Accountants

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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, 2017, 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.

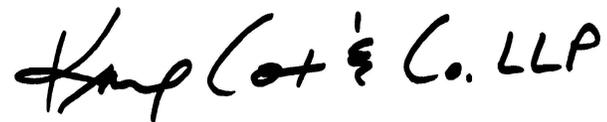
Opinion

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, 2017, 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
September 17, 2018

FINANCIAL STATEMENTS

Greatwood Community Association, Inc.

BALANCE SHEET

December 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 2,190,583	\$ 597,559	\$ 2,788,142
Investments - certificate of deposit		206,105	206,105
Assessments receivable (net of allowance for doubtful accounts of \$90,000)	214,944		214,944
Other receivables	97,078		97,078
Income taxes receivable	612		612
Prepaid insurance	38,973		38,973
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 2,542,190</u>	<u>\$ 803,664</u>	<u>\$ 3,345,854</u>
 <u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 90,364	\$ 500,708	\$ 591,072
Assessments received in advance	1,289,701		1,289,701
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>1,380,065</u>	<u>500,708</u>	<u>1,880,773</u>
 <u>Fund Balances</u>			
Undesignated	1,162,125	302,956	1,465,081
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,162,125</u>	<u>302,956</u>	<u>1,465,081</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 2,542,190</u>	<u>\$ 803,664</u>	<u>\$ 3,345,854</u>

See Notes to Financial Statements.

Greatwood Community Association, Inc.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Revenues			
Maintenance assessments	\$ 3,185,023	\$ 346,192	\$ 3,531,215
Legal fees	127,581		127,581
Collection costs	25,962		25,962
Other	19,375		19,375
Social/recreation/activity	6,950		6,950
Event sponsorships	3,000		3,000
Swim team income	3,500		3,500
MUD reimbursement	855,314		855,314
Interest income	7,758	4,011	11,769
Total Revenues	4,234,463	350,203	4,584,666
Expenses			
Landscaping	1,156,684	77,840	1,234,524
Utilities	576,330		576,330
Safety and security	355,988	7,536	363,524
Pool management and maintenance	362,441	1,801,185	2,163,626
Legal fees	173,511		173,511
Fence, gates and monuments	247,570	2,320	249,890
Recreation/park	43,069	1,761,545	1,804,614
Management fees	115,298		115,298
Fountain/pond/lake maintenance	48,574	8,477	57,051
Decorations	76,930		76,930
Electrical repair	76,729	15,675	92,404
Insurance	70,036		70,036
Irrigation repair and maintenance	99,667		99,667
Concrete/sidewalks	705	3,660	4,365
Communications	57,441		57,441
Pest control	27,853		27,853
General repairs and maintenance	35,765		35,765
Management billing and collection costs	32,561		32,561
Administrative	24,075		24,075
Tennis court repair and maintenance	1,221		1,221
Bad debt	46,145		46,145
Janitorial supplies and maintenance	6,751		6,751
Audit and tax return	8,990		8,990
Property taxes and permits	1,762		1,762
Federal income taxes	2,227		2,227
Total Expenses	3,648,323	3,678,238	7,326,561
Revenues Over (Under) Expenses	586,140	(3,328,035)	(2,741,895)
Fund Balances, Beginning	3,710,077	496,899	4,206,976
Transfer between funds	(3,134,092)	3,134,092	
Fund Balances, Ending	\$ 1,162,125	\$ 302,956	\$ 1,465,081

See Notes to Financial Statements.

Greatwood Community Association, Inc.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
<u>Cash Flows from Operating Activities</u>			
Revenues Over (Under) Expenses	\$ 586,140	\$ (3,328,035)	\$ (2,741,895)
Adjustments to reconcile revenue over (under) expenses to cash provided (used) by operating activities:			
(Increase) Decrease in:			
Assessments receivable	26,205		26,205
Other receivables	(97,078)		(97,078)
Due from Replacement Fund	570,502		570,502
Prepaid insurance	9,773		9,773
Income taxes receivable	(612)		(612)
Increase (Decrease) in:			
Accounts payable	12,863	181,754	194,617
Assessments received in advance	14,230		14,230
Due to Operating Fund		(570,502)	(570,502)
Income taxes payable	(1,878)		(1,878)
Net Cash Provided (Used) by Operating Activities	1,120,145	(3,716,783)	(2,596,638)
<u>Cash Flows from Investing Activities</u>			
Purchase of certificate of deposit		(1,422)	(1,422)
Net Cash Provided (Used) by Investing Activities		(1,422)	(1,422)
<u>Cash Flows from Financing Activities</u>			
Interfund transfers	(3,134,092)	3,134,092	
Net Cash Provided (Used) by Financing Activities	(3,134,092)	3,134,092	
Net (Decrease) in Cash and Cash Equivalents	(2,013,947)	(584,113)	(2,598,060)
Cash and cash equivalents, beginning	4,204,530	1,181,672	5,386,202
Cash and Cash Equivalents, Ending	\$ 2,190,583	\$ 597,559	\$ 2,788,142
Supplemental Disclosure			
Income taxes paid	\$ 4,673	\$	\$ 4,673

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 September 17, 2018, 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, 2017. Assessments for future major repairs and replacement in the current year were \$346,192.

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, 2017.

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, 2017. 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, 2017, 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 2014 through 2016 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, 2017, the Association's investments consist of a certificate of deposit in the amount of \$206,105 with a maturity date of October 20, 2018.

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, 2017 and 2016.

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 \$70,150 from the Association for equipment and services during 2017.

NOTE 10 - MUNICIPAL UTILITY DISTRICT AGREEMENT

In 2015, the Fort Bend County Municipal Utility District No. 106 - Master District ("Master District"), acting on behalf of Fort Bend County Municipal Utility District No's. 106, 108, 109 and 117 ("Greatwood MUDs"), 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, 2017, all funds have been expended.

In 2017, the Master District and Greatwood MUDs contributed an additional \$855,314. As of December 31, 2017, all funds have been expended.

Greatwood Community Association, Inc.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2017
(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. Subsequent to year-end, an updated replacement study was performed in January 2018. These replacement costs will be reflected in the 2018 financial report.

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

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Future Replacement Costs</u>
Property Site Elements:		
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
Recreation Center Elements:		
Restrooms	0 to 10	60,146
Roofs	8 to 19	90,600
Windows and doors	11 to 22	74,861
Pool Elements:		
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
Reserve Study Update	0	5,100
		<u>\$ 14,837,150</u>

The balance in the Replacement Fund at December 31, 2017 is \$302,956.

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.