

**Greatwood Community
Association, Inc.**

FINANCIAL STATEMENTS

December 31, 2018

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CONTENTS

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

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Certified Public Accountants

77 Sugar Creek Center Blvd., Suite 215 | Sugar Land, Texas 77478
main: 346-772-2860 | fax: 346-772-2853

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, 2018, 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.

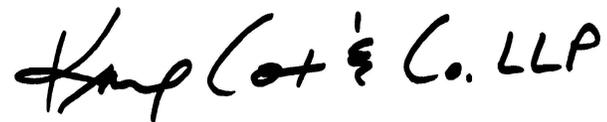
Opinion

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, 2018, 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
May 10, 2019

FINANCIAL STATEMENTS

Greatwood Community Association, Inc.

BALANCE SHEET

December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,481,488	\$ 550,303	\$ 2,031,791
Investments - certificate of deposit		207,418	207,418
Assessments receivable (net of allowance for doubtful accounts of \$90,000)	148,996		148,996
Other receivables	52,808		52,808
Prepaid expenses	60,048		60,048
Total Assets	\$ 1,743,340	\$ 757,721	\$ 2,501,061
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts payable	\$ 115,671	\$	\$ 115,671
Assessments received in advance	1,267,214		1,267,214
Income taxes payable	1,079		1,079
Total Liabilities	1,383,964		1,383,964
<u>Fund Balances</u>			
Undesignated	359,376	757,721	1,117,097
Total Fund Balances	359,376	757,721	1,117,097
Total Liabilities and Fund Balances	\$ 1,743,340	\$ 757,721	\$ 2,501,061

See Notes to Financial Statements.

Greatwood Community Association, Inc.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES

For the Year Ended December 31, 2018

	Operating Fund	Replacement Fund	Total
Revenues			
Maintenance assessments	\$ 3,129,954	\$ 398,845	\$ 3,528,799
Legal fees	149,300		149,300
Collection costs	21,891		21,891
Other	37,387		37,387
Social/recreation/activity	10,240		10,240
Swim team income	3,500		3,500
Interest income	9,572	3,005	12,577
Total Revenues	3,361,844	401,850	3,763,694
Expenses			
Landscaping	1,200,601	89,625	1,290,226
Utilities	414,543		414,543
Safety and security	417,578	725	418,303
Pool management and maintenance	364,015	133,245	497,260
Legal fees	230,947		230,947
Fence, gates and monuments	29,033	255,360	284,393
Recreation/park	11,432	144,799	156,231
Management fees	103,679		103,679
Fountain/pond/lake maintenance	42,551		42,551
Decorations	90,124		90,124
Electrical repair	72,884	18,298	91,182
Insurance	74,299		74,299
Irrigation repair and maintenance	138,472	25,742	164,214
Concrete/sidewalks	50		50
Communications	59,767		59,767
Pest control	15,230		15,230
General repairs and maintenance	19,505		19,505
Management billing and collection costs	26,712		26,712
Administrative	38,302		38,302
Tennis court repair and maintenance	8,659		8,659
Bad debt	60,938		60,938
Janitorial supplies and maintenance	4,991		4,991
Audit and tax return	14,750		14,750
Property taxes and permits	1,522		1,522
Federal income taxes	3,300		3,300
Total Expenses	3,443,884	667,794	4,111,678
Revenues (Under) Expenses	(82,040)	(265,944)	(347,984)
Fund Balances, Beginning	1,162,125	302,956	1,465,081
Transfer between funds	(720,709)	720,709	
Fund Balances, Ending	\$ 359,376	\$ 757,721	\$ 1,117,097

See Notes to Financial Statements.

Greatwood Community Association, Inc.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<u>Cash Flows from Operating Activities</u>			
Revenues (Under) Expenses	\$ (82,040)	\$ (265,944)	\$ (347,984)
Adjustments to reconcile revenue over (under) expenses to cash provided (used) by operating activities:			
(Increase) Decrease in:			
Assessments receivable	65,948		65,948
Other receivables	44,270		44,270
Prepaid insurance	(21,075)		(21,075)
Income taxes receivable	612		612
Increase (Decrease) in:			
Accounts payable	25,307	(500,708)	(475,401)
Assessments received in advance	(22,487)		(22,487)
Income taxes payable	1,079		1,079
Net Cash Provided (Used) by Operating Activities	<u>11,614</u>	<u>(766,652)</u>	<u>(755,038)</u>
<u>Cash Flows from Investing Activities</u>			
Purchase of certificate of deposit		(1,313)	(1,313)
Net Cash Provided (Used) by Investing Activities		<u>(1,313)</u>	<u>(1,313)</u>
<u>Cash Flows from Financing Activities</u>			
Interfund transfers	(720,709)	720,709	
Net Cash Provided (Used) by Financing Activities	<u>(720,709)</u>	<u>720,709</u>	
Net (Decrease) in Cash and Cash Equivalents	(709,095)	(47,256)	(756,351)
Cash and cash equivalents, beginning	<u>2,190,583</u>	<u>597,559</u>	<u>2,788,142</u>
Cash and Cash Equivalents, Ending	<u>\$ 1,481,488</u>	<u>\$ 550,303</u>	<u>\$ 2,031,791</u>
Supplemental Disclosure			
Income taxes paid	\$ 2,240	\$	\$ 2,240

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 May 10, 2019, 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, 2018. Assessments for future major repairs and replacement in the current year were \$398,845.

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.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset. US GAAP establishes a fair value hierarchy that prioritizes investments based on those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to an entity's assumptions (unobservable inputs). The Association groups assets at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets as of the measurement date.

Level 2 - Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar assets/liabilities in active markets;
- Quoted prices for identical or similar assets in non-active markets;
- Inputs other than quoted prices that are observable for the asset/liability;
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 - Unobservable inputs that cannot be corroborated by observable market data.

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, 2018.

Greatwood Community Association, Inc.

NOTES TO FINANCIAL STATEMENTS

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, 2018. 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, 2018, 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.

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 2015 through 2017 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

Greatwood Community Association, Inc.

NOTES TO FINANCIAL STATEMENTS

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, 2018, the Association's investments consist of a certificate of deposit in the amount of \$207,418 with a maturity date of October 20, 2019.

As of December 31, 2018, all investments were considered level 2 investments.

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, 2018 and 2017.

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 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 former President of the Board of Directors is a member of SecureCheck, LLC. The company received \$10,982 from the Association for equipment and services during 2018.

Greatwood Community Association, Inc.

SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS

December 31, 2018
(Unaudited)

A consulting firm conducted a study in January 2018 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 2.4%. Estimated future replacement costs have not been revised since that date.

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

Component	Estimated Remaining Useful Life (Years)	Estimated Future Replacement Costs
Property Site Elements:		
Concrete parking lots and sidewalks	1 to 30+	\$ 1,125,703
Fences	3 to 21	623,861
Irrigation system	17 to 25	2,515,044
Light poles and fixtures	6 to 7	147,011
Perimeter walls	1 to 30	7,256,348
Playground equipment	14 to 17	1,051,800
Ponds	2 to 10	1,069,290
Tennis courts	1 to 22	1,727,877
Building Elements:		
Restrooms	2 to 22	143,988
Roofs	8 to 28	276,191
Windows and doors	10 to 30	91,149
Air handling, condensing units and generator	14 to 28	174,071
Safety and security systems	8 to 23	212,383
Interior floor coverings, kitchen and office renovation	6 to 22	326,268
Pool Elements:		
Concrete decks	2 to 8	516,383
Diving boards	3	175,926
Fences	3 to 27	277,486
Furniture	1 to 9	259,508
Mechanical equipment	2 to 12	402,944
Plaster finish	2 to 8	1,080,884
Shade structure	15	29,972
Water feature and slides	3 to 23	1,042,277
Reserve Study Update	0	270,000
		<u>\$ 20,796,364</u>

The balance in the Replacement Fund at December 31, 2018 is \$757,721.