

**NORTHMEAD VILLAGE COMMUNITY
ASSOCIATION, INC.**

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2016

ELAINE WELLS COMBS, CPA
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NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

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Independent Auditor's Report

To The Board of Directors
of Northmead Village Community Association, Inc.

Report on the Financial Statements

I have audited the accompanying financial statement of Northmead Village Community Association, Inc., which comprise of the balance sheet as of December 31, 2016, and the related statement of revenues and expenses and change in member's equity balance 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northmead Village Community Association, Inc. as of December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information is presented for the additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Elaine Wells Combs, CPA
Houston, Texas

June 2, 2017

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

STATEMENT OF ASSETS, LIABILITIES AND

MEMBERS' EQUITY

December 31, 2016

	ASSETS		
	OPERATING FUND	REPLACEMENT FUND	TOTAL
Cash and cash equivalents	\$ 213,232	\$ 77,012	\$ 290,244
Certificates of deposits		241,070	241,070
Assessments receivable less allowance for doubtful accounts of \$ 12,087	109,764		109,764
Prepaid federal tax	207		207
TOTAL ASSETS	\$ 323,203	\$ 318,082	\$ 641,285

LIABILITIES AND MEMBERS' EQUITY

Accounts payable	\$ 5,978	\$	\$ 5,978
Assessments received in advance	175,139		175,139
TOTAL LIABILITIES	181,117		181,117
Members' equity (Deficit)	142,086	318,082	460,168
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 323,203	\$ 318,082	\$ 641,285

The accompanying notes are an integral part of this statement

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN MEMBERS' EQUITY**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Assessment fee income	\$ 438,303	\$ 59,337	\$ 497,640
Commercial assessments	29,672		29,672
Interest income	457	2,691	3,148
Pool income	2,145		2,145
Late fees and other	2,617		2,617
	<hr/>	<hr/>	<hr/>
TOTAL REVENUES	473,194	62,028	535,222
 <u>EXPENSES</u>			
Access control		14,525	14,525
Amenities program		121,679	121,679
Bad debt	13,441		13,441
Committee expenses	1,672		1,672
Community events	2,190		2,190
Flooring		4,644	4,644
Insurance	23,444		23,444
Irrigation maintenance	4,304		4,304
Landscape maintenance	16,326		16,326
Legal and professional	92		92
Management fees	37,636		37,636
Master association fees	181,360		181,360
Office expense	26,296		26,296
Park repairs and improvement	10,530	633	11,163
Pest control	2,034		2,034
Pool contract and repairs	46,870		46,870
Repairs and maintenance	1,202		1,202
Shade structure		6,744	6,744

The accompanying notes are an integral part of this statement.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN MEMBERS' EQUITY (continued)**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
Sidewalk project		41,405	41,405
Taxes, property	3		3
Tree trimming	36,451		36,451
Utilities	58,745		58,745
Website	520		520
	<u>463,116</u>	<u>189,630</u>	<u>652,746</u>
TOTAL EXPENSES			
EXCESS REVENUES OVER EXPENSERS	10,078	(127,602)	(117,524)
MEMBERS' EQUITY, BEGINNING OF YEAR	146,099	445,684	591,783
PRIOR PERIOD ADJUSTMENT	<u>(14,091)</u>		<u>(14,091)</u>
MEMBERS' EQUITY, END OF YEAR	<u>\$ 142,086</u>	<u>\$ 318,082</u>	<u>\$ 460,168</u>

The accompanying notes are an integral part of this statement.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses	\$ 10,078	\$ (127,602)	\$ (117,524)
Adjustments to reconcile excess of revenue over expenses to net cash used by operating activities:			
Decrease in assessment receivables	8,800		8,800
Increase in prepaid federal tax	(207)		(207)
Increase in accounts payable	5,978		5,978
Decrease in assessments received in advance	(1,323)		(1,323)
Prior period adjustment	(14,091)		(14,091)
	(843)		(843)
Net cash generated by operating activities	(843)		(843)
NET INCREASE (DECREASE) IN CASH	9,235	(127,602)	(118,367)
CASH BALANCE AT BEGINNING OF YEAR	203,997	445,684	649,681
CASH BALANCE AT END OF YEAR	\$ 213,232	\$ 318,082	\$ 531,314
SUPPLEMENTAL DISCLOSURE			
Income taxes	\$	\$	\$
Interest expense	\$	\$	\$

The accompanying notes are an integral part of this statement

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

A. ORGANIZATION

Northmead Village Community Association, Inc., a Texas non-profit corporation was formed in 1971. The purpose of the Association is to provide for maintenance and preservation of the properties subject to the Declaration of Covenants, Conditions and Restrictions applicable to the Association. The Association consists of 958 residential units and 4 commercial units located in Harris County, Texas.

B. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition of disclosure through June 2, 2017, the date that the financial statements were available to be issued.

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the obligations are incurred.

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 at the balance sheet date represent fees due from unit owners. Pre-payments of subsequent year assessments are recorded as a liability. At December 31, 2016, the Association had an assessment receivable of \$109,746, net of the allowance for doubtful accounts of \$ 12,087.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Income Taxes

The Association recognizes and disclosed its tax positions in accordance with Accounting Standards which required the disclosure of uncertain tax positions and related penalties and interest recognized in the financial examination by a taxing authority. Accordingly, no related penalties or interest were recognized in the financial statements. Federal tax returns for the past three years are still subject to examination.

The Association may be taxed either as a homeowners' association or as a regular corporation. As a homeowners' association, in accordance with Internal Revenue Service Code Section 528, the association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment income and non-exempt income, if any, would be subject to tax. For the year ended December 31, 2016, the Association elected to be taxed as a homeowner's association.

As a regular corporation, The Association is allowed to carry over to future period's excess of expenses for the maintenance of the common property over membership source income, to offset future income from membership sources per Internal Revenue Service Code Section 277.

Determination of cash equivalents

The Association considers cash in operating accounts and short term certificates of deposit (defined as those with an original maturity date of three months or less) as cash and cash equivalents. The Association had three certificates at December 31, 2016 in the amount of \$ 241,070. All of the certificates will mature in January, 2017.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The Association's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued expenses. The recorded values of these financial instruments approximate their fair values based on their short term nature.

Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of member accounts receivable. The Association is subject to credit risk concentration since all of its members own property in the same geographical area.

Property and Equipment

The Association is responsible for preserving and maintaining the common area properties and may dispose of them only in accordance with the Articles of Incorporation and governing documents.

In conformity with industry practice, the Association recognizes the following common property as assets:

- a. Common personal property
- b. Common real property to which it has title
- c. and that it can dispose of for cash while retaining the proceeds or that is used to generate significant cash flows from members on the basis of usage or from non-members.

In conformity with industry practice, other common area property, primarily consisting of lake, park and landscape are not recognized as assets on the balance sheet.

D. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents state that funds must be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016

D. FUTURE MAJOR REPAIRS AND REPLACEMENTS (continued)

The Association had a study conducted in 2013 to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that may be required in the future. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right subject to membership approval, to increase regular assessments, pass special assessments in accordance with the Association's Covenants, or delay major repairs and replacements until funds are available. The effect on future assessments has not been determined at this time. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study. The Board of Directors annually updates the capital fund projects budgeted for the subsequent year.

E. UNCERTAIN TAX POSITIONS

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. The income tax returns for December 31, 2013, December 31, 2014 and December 31, 2015 remain open to examination.

G. UNINSURED CASH BALANCES

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market deposit accounts
- Certificates of deposit

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016

G. UNINSURED CASH BALANCES (continued)

- FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities or securities.
- The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.
- At December 31, 2016 the Association had no uninsured balances.

H. COMMITMENTS AND CONTINGENCIES

The Association routinely enters into various contracts with vendors for management and other services. All contracts generally have a one year term and are cancelable with a 30-60 day notification by either party.

From time to time, the Association may be subject to litigation in the ordinary course of business and seeks the advice from legal counsel to assist in estimation of the potential risk of loss. The Association did not experience any losses from litigation during the year ending December 31, 2016 and the board of directors is not aware of any significant litigation or claims outstanding as of that date.

I. ALLOWANCE FOR DOUBTFUL ACCOUNTS – BAD DEBTS

The Association uses the allowance method to recognize bad debts. The allowance method recognizes bad debt expenses based upon expectations of collectability. For community associations, the direct write off method approximates the allowance method for recognition of bad debts, since the Association has the ability to place liens on the owners' lots for collection of delinquent assessments.

At December 31, 2016, the allowance for bad debt was set at \$ 12,087 and bad debt expense for the year ended was \$ 13,441.

NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.

SUPPLEMENTARY INFORMATION

YEAR ENDED DECEMBER 31, 2016

**NORTHMEAD VILLAGE COMMUNITY ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
 AND REPLACEMENTS (UNAUDITED)
 DECEMBER 31, 2016**

The Association's board of directors conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

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

Components	Estimated Remaining Useful Life (Years)	Estimated Replacement Costs
Pool	1 - 15	\$ 158,700
Park 1	1 - 7	68,700
Park 2	1 - 7	53,700
Fencing		27,000
TOTAL		\$ 308,150