

THE OAKS CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

AUGUST 31, 2016

Joseph H. Stoller, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANT

THE OAKS CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTAL INFORMATION

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Joseph H. Stoller, CPA, LLC
Certified Public Accountant
Bank Of America Building / 9660 Hillcroft #520
Houston, Texas 77096
(713) 728 - 9700 / FAX (832) 645 - 7514
email: joestoller63@gmail.com

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
of The Oaks Condominium Association, Inc.

We have audited the accompanying financial statements of The Oaks Condominium Association, Inc., which comprise the balance sheet as of August 31, 2016, and the related statements of revenues, expenses, and changes in member's equity 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 audits. 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 of 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 The Oaks Condominium Association, Inc., as of August 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 supplementary information on future major repairs and replacements on page 10 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.

Joe Stoller

Houston, Texas
December 20, 2016

THE OAKS CONDOMINIUM ASSOCIATION, INC.

BALANCE SHEET

AUGUST 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>TOTAL</u>
ASSETS			
Cash and cash equivalents	\$ 93,726	\$ 1,229,755	\$ 1,323,481
Certificates of deposit	-	116,157	116,157
Accounts receivable - less allowance for doubtful accounts \$ 5,000	9,438	-	9,438
Prepaid expenses	<u>69,118</u>	<u>-</u>	<u>69,118</u>
TOTAL ASSETS	<u>\$ 172,282</u>	<u>\$ 1,345,912</u>	<u>\$ 1,518,194</u>
LIABILITIES			
Accounts payable - trade	\$ 219,152	\$ -	\$ 219,152
Deposits owner or lease	1,125	-	1,125
Federal income tax payable	1,962	-	1,962
Prepaid assessments	<u>110,762</u>	<u>-</u>	<u>110,762</u>
TOTAL LIABILITIES	333,001	-	333,001
MEMBERS' EQUITY	<u>(160,719)</u>	<u>1,345,912</u>	<u>1,185,193</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	<u>\$ 172,282</u>	<u>\$ 1,345,912</u>	<u>\$ 1,518,194</u>

See accompanying notes to financial statements.

THE OAKS CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES

AND CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDING AUGUST 31, 2016

	Operating Fund	Replacement Fund	TOTAL
REVENUES			
Assessments	\$ 2,745,882	\$ 304,248	\$ 3,050,130
Interest	3,141	161	3,302
Rental income	13,500	-	13,500
Other Income	37,983	-	37,983
TOTAL REVENUES	<u>2,800,506</u>	<u>304,409</u>	<u>3,104,915</u>
EXPENSES			
Bad debts	3,820	-	3,820
Cable expense	226,963	-	226,963
Capital expenditures	-	340,376	340,376
Common area building maintenance	169,392	-	169,392
Courtesy patrol	307,002	-	307,002
Grounds maintenance	105,435	-	105,435
Insurance	377,335	-	377,335
Federal tax expense	3,320	-	3,320
Legal and professional	57,244	-	57,244
Management fees	39,996	-	39,996
Master association dues	17,336	-	17,336
Operating administrative expenses	37,948	-	37,948
Payroll and employee benefits	409,100	-	409,100
Pest control	21,498	-	21,498
Pool maintenance	8,416	-	8,416
Sanitation	28,900	-	28,900
Utilities and telephone	1,022,262	-	1,022,262
Water treatment	16,489	-	16,489
TOTAL EXPENSES	<u>2,852,456</u>	<u>340,376</u>	<u>3,192,832</u>
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	(51,950)	(35,967)	(87,917)
TRANSFER OF FUNDS	(92,017)	92,017	-
BEGINNING FUND BALANCES	<u>(16,752)</u>	<u>1,289,862</u>	<u>1,273,110</u>
ENDING FUND BALANCES	\$ <u>(160,719)</u>	\$ <u>1,345,912</u>	\$ <u>1,185,193</u>

See accompanying notes to financial statements.

THE OAKS CONDOMINIUM ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDING AUGUST 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>TOTAL</u>
CASH FLOW FROM OPERATIONS			
Excess of revenues over expenses (expenses over revenues)	\$ <u>(51,950)</u>	\$ <u>(35,967)</u>	\$ <u>(87,917)</u>
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:			
(Increase) decrease in:			
Account receivable	11,114	-	11,114
Prepaid Expenses	7,688	-	7,688
Increase (decrease) in:			
Accounts Payable	102,980	(27,500)	75,480
Federal income tax payable	1,962	-	1,962
Prepaid Assessments	<u>(11)</u>	<u>-</u>	<u>(11)</u>
NET CASH PROVIDED/ (USED) BY OPERATING ACTIVITIES	<u>71,783</u>	<u>(63,467)</u>	<u>8,316</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Reinvestment of interest on certificates of deposit	<u>-</u>	<u>(564)</u>	<u>(564)</u>
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	<u>-</u>	<u>(564)</u>	<u>(564)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Due to and from operating and replacement	<u>(92,017)</u>	<u>92,017</u>	<u>-</u>
NET CASH PROVIDED/(USED) BY FINANCING ACTIVITIES	<u>(92,017)</u>	<u>92,017</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	<u>(20,234)</u>	<u>27,986</u>	<u>7,752</u>
CASH AT BEGINNING OF YEAR	<u>113,960</u>	<u>1,201,769</u>	<u>1,315,729</u>
CASH AT END OF YEAR	\$ <u><u>93,726</u></u>	\$ <u><u>1,229,755</u></u>	\$ <u><u>1,323,481</u></u>
SUPPLEMENTAL DISCLOSURE:			
Income Taxes Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Interest Paid	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to financial statements.

THE OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2016

A. ORGANIZATION

The Oaks Condominium Association, Inc. (the Association), a Texas not-for-profit corporation, was formed May 23, 1979. The Association is responsible for operation and maintenance of the common property and preservation and architectural control of The Oaks Condominiums subject to the Declaration of Covenants, Conditions and Restrictions applicable to the Association. The Association consists of 556 condominium units located in Harris County, Texas.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of management's review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through December 20, 2016, the date that the financial statements were available to be issued.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Dues and assessments are recorded as revenue in the applicable year.

Property and Equipment

The Association has title to all common areas deeded from the developer; however, the Association cannot dispose of this property. Replacements and improvements to the common property are not capitalized but rather are charged to expense as incurred.

Use of estimates

The preparation of financial statements in conformity with U. S. 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 reported period. Actual results could differ from those estimates.

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.

Fair value of financial instruments

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

THE OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2016

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital improvements, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from members. The Association's policy is to pursue collection from members whose assessments are past due. After all other reasonable collection efforts, have been exhausted, including the termination of electricity services, the Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. Any excess assessments at year end are retained by the Association for use in future years. Payments of subsequent year assessments are recorded as liabilities. The annual budget and assessments of members are determined by the Board of Directors.

At August 31, 2016 the Accounts receivable balance was \$ 9,438. An allowance account in the amount of \$ 5,000 has been recorded for those accounts whose collection is considered doubtful.

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 units in the same geographical area.

Concentrations of membership

Most of the Association's business activities are with its members. The Association has a geographical concentration of its members.

Income Taxes

The Association recognizes and disclosed its tax positions in accordance with accounting standards, which requires 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 August 31, 2016, the Association elected to be taxed as a homeowners' association.

As a regular corporation, the Association can 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.

THE OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2016

C. PREPAID EXPENSES

Prepaid expenses for August 31, 2016 represent the pro-rata portion of insurance policies and master association dues in the amount of \$ 69,118.

D. 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.

The Association renewed a contract in March 2013 for a seven-year period with the cable service entity to obtain bulk service rates for the unit owners. The contract provides for an escalation of fees annually to offset increased costs during the term of the agreement. See Cable Contract (J) for the fees for which the Association has agreed.

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 has liability insurance for protection against litigation. The Association did not experience any losses from litigation during the fiscal year and the board of Directors is not aware of any significant litigation, claims, or major assessments outstanding as of August 31, 2016.

E. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association documents require a funding program for anticipated major repairs and capital replacements over the expected life of the building and grounds improvements. A fund was established based on a study performed in a previous year to estimate the remaining useful lives and the replacement costs of the common property components.

The Association is funding such major repairs and replacements over the estimated useful lives of the components based on the original study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material.

Therefore, amounts accumulated in the replacement fund may not be adequate to meet major repair and replacement needs. If additional funds are needed, however, the Association has the right to increase regular assessments, or levy additional assessments, or it may delay major repairs and replacements until funds are available.

Funds contributed for future repair and replacement uses are held in separate accounts and generally not available for operating purposes. At August 31, 2016, the separate accounts aggregated \$ 1,345,912. The Association contributed \$ 304,248 of maintenance assessments to the fund in the current fiscal year and had capital expenditures in the amount of \$ 340,376.

F. RELATED PARTIES

The Board of Directors is comprised of unit owners or owner representatives if owned by a corporation.

The Association participates in a master insurance program arranged by the management company for coverages for general liability, equipment breakdown, crime, directors and officer's liability, workman's compensation, and excess liability. Property insurance is covered by a stand-alone policy.

THE OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2016

G. CERTIFICATES OF DEPOSIT

Certificates of deposit maturing more than ninety days of August 31, 2016 are separately presented on the Balance Sheet. The Association has two certificates included in this classification and retained in the replacement fund. The two certificates totaling \$ 116,157 mature in June 2017 and have an interest rate of less than 1.0%.

H. UNINSURED CASH

The Association maintains its cash funds in several financial institutions in the area. At August 31, 2016, the Association had approximately \$ 58,256 more than the Federal Deposit Insurance Corporation maximum coverage limit of \$ 250,000 per depositor per institution.

I. SUBSEQUENT EVENT

The Association has been leasing a unit and the rental income is separately stated on the financial statements.

J. CABLE CONTRACT

In March 2013, the Association renewed a contract with the cable service provider to obtain bulk service rates for the unit owners. The terms of the seven-year contract stipulated the Association would pay a monthly per unit fee for the total 556 units at an escalating annual rate. At August 31, 2015, the Association is in year three of the contract and has remaining annual commitments as follow:

2016-2017	16,558
2017-2018	17,547
2018-2019	18,604
2019-2020	<u>19,716</u>
	<u>\$ 72,425</u>

SUPPLEMENTARY INFORMATION

THE OAKS CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

AUGUST 31, 2016

The Association had a study to estimate the remaining useful lives and replacement costs of the components of common element property in a previous year. Replacement costs were based on the estimated costs to repair or replace the common element property components at the date of the study. Estimated current replacement costs have not been revised since that date and therefore do not consider the effects of inflation between the date of the study and the date that the components will require repair or replacement. Some of the replacements have also already occurred during the intervening years and the study totals have not been revised for these.

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

<u>COMPONENTS</u>	<u>ESTIMATED REMAINING USEFUL LIFE (YEARS)</u>	<u>ESTIMATED CURRENT REPLACEMENT COSTS</u>
Boilers	7	\$ 64,450
Electrical	47	175,000
Fences	1 – 19	65,000
Foundations	1 – 4	175,000
Golf carts	1 – 3	15,000
Gutters, downspouts	1 – 7	28,000
Landscape	2 – 3	150,000
Lighting	1 – 7	12,000
Mailboxes	1 – 11	10,000
Maintenance equipment	1 – 7	12,000
Office equipment	1 – 4	8,000
Pools	1 – 3	45,000
Retaining walls	1 – 4	28,000
Roofs	1 – 22	1,004,500
Sidewalks	1 – 19	165,000
Siding	1 – 10	850,000
Signage	1 – 4	5,000
Stairs/balconies	1 – 11	170,000
Transformers	1 – 14	86,000
Interest		<u>6,775</u>
Total		<u>\$ 3,145,950</u>

The Association has an accumulated total of \$ 1,345,912 in the replacement fund at August 31, 2016.