

The Oaks Condominium Association, Inc.
(A Texas Non-Profit Corporation)

Financial Statements

August 31, 2018

Canady & Canady, P.C.

Certified Public Accountants

4707 Ingersoll Street

Houston, Texas 77027

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of The Oaks Condominium Association, Inc. , which comprise the balance sheet as of August 31, 2018, and related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended.

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.

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Independent Auditor's Report (Continued)

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

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, 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 Supplementary Information on Future Major Repairs and Replacements on page 9 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.



Houston, Texas

December 7, 2018

The Oaks Condominium Association, Inc.
Balance Sheet
August 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 110,965	\$ 1,199,328	\$ 1,310,293
Certificates of deposit	-	117,627	117,627
Assessments receivable	10,590	-	10,590
Prepaid expenses	<u>130,001</u>	<u>-</u>	<u>130,001</u>
Total Assets	<u><u>\$ 251,556</u></u>	<u><u>\$ 1,316,955</u></u>	<u><u>\$ 1,568,511</u></u>
 Liabilities and Fund Balances			
Accounts payable	\$ 113,020	\$ -	\$ 113,020
Assessments received in advanced	<u>66,238</u>	<u>-</u>	<u>66,238</u>
Total Liabilities	179,258	-	179,258
Fund Balances	<u>72,298</u>	<u>1,316,955</u>	<u>1,389,253</u>
Total Liabilities and Fund Balances	<u><u>\$ 251,556</u></u>	<u><u>\$ 1,316,955</u></u>	<u><u>\$ 1,568,511</u></u>

See accompanying notes to financial statements.

The Oaks Condominium Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended August 31, 2018

	Operating Fund	Replacement Fund	Total
Revenues			
Assessments	\$ 2,663,989	\$ 370,956	\$ 3,034,945
Rental income	14,400	-	14,400
Interest	-	6,105	6,105
Federal income tax refund	646	-	646
Other	29,786	-	29,786
Total Revenues	<u>2,708,821</u>	<u>377,061</u>	<u>3,085,882</u>
Expenses			
Utilities	1,023,516	-	1,023,516
Capital improvement	-	367,782	367,782
Payroll	364,434	-	364,434
Insurance	341,395	-	341,395
Security	257,903	-	257,903
Cable	254,731	-	254,731
Landscape	111,111	-	111,111
Repair and maintenance	124,184	-	124,184
Administrative	40,253	-	40,253
Management fee	39,996	-	39,996
Legal and professional	23,387	-	23,387
Pest control	21,366	-	21,366
Master association dues	17,336	-	17,336
Water treatment	15,449	-	15,449
Porter service	11,094	-	11,094
Telephone	9,068	-	9,068
Pool	6,061	-	6,061
Total Expenses	<u>2,661,284</u>	<u>367,782</u>	<u>3,029,066</u>
Excess of Revenues Over Expenses	47,537	9,279	56,816
Fund Balances			
Beginning of year	(36,087)	1,368,524	1,332,437
Permanent fund transfer	60,848	(60,848)	-
End of year	<u>\$ 72,298</u>	<u>\$ 1,316,955</u>	<u>\$ 1,389,253</u>

See accompanying notes to financial statements.

The Oaks Condominium Association, Inc.
Statement of Cash Flows
For The Year Ended August 31, 2018

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash Flows From Operating Activities			
Excess of revenues over expenses	\$ 47,537	\$ 9,279	\$ 56,816
Adjustments to reconcile excess of revenues over expenses to net cash (used) by operating activities:			
Decrease (increase) in:			
Assessments receivable	3,113	-	3,113
Prepaid expenses	(63,219)	-	(63,219)
(Decrease) in:			
Account payable	(17,576)	(17,348)	(34,924)
Assessments received in advance	(53,151)	-	(53,151)
Net cash (used) by operating activities	(83,296)	(8,069)	(91,365)
Cash Flows From Investing Activities			
Reinvestment of interest income	-	(883)	(883)
Cash Flows From Financing Activities			
Interfund transfer	60,848	(60,848)	-
Net (decrease) in cash and cash equivalents	(22,448)	(69,800)	(92,248)
Cash and cash equivalents, beginning of year	133,413	1,269,128	1,402,541
Cash and cash equivalents, end of year	<u>\$ 110,965</u>	<u>\$ 1,199,328</u>	<u>\$ 1,310,293</u>
Supplemental Disclosures:			
Income Tax Paid	\$ 707	\$ -	\$ 707
Interest Paid	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

The Oaks Condominium Association, Inc.
Notes to Financial Statements
August 31, 2018

Note 1 - Organization

The Oaks Condominium Association, Inc. (the Association) is a Texas non-profit corporation incorporated on May 22, 1979 for the purpose of providing for maintenance, preservation and architectural control of the properties that may be brought within the jurisdiction of the Association. The Association is comprised of 556 condominium units located in Harris County, Texas.

Note 2 - Date of Management's Review

In preparing the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through December 7, 2018 the date that the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains two funds classified for accounting and reporting purposes according to their nature and purpose, as follows:

Operating Fund – This category is used to account for financial resources for the general operations of the Association.

Replacement Fund – This category is used to accumulate financial resources for future major repairs and replacements of the Association.

Cash

Cash includes cash and cash equivalents of short-term, highly liquid investments which are readily convertible into cash within ninety days of purchase. The Association maintains its cash balances in a financial institution which is member of FDIC. Accounts at the institutions are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of August 31, 2018, all the cash balance was insured by FDIC

Assessments

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, maintenance of common areas, future capital acquisitions, and major repairs and replacements of common areas. Any excess assessments at year end are retained by the Association for use in the succeeding year.

The Oaks Condominium Association, Inc.
Notes to Financial Statements
August 31, 2018

Note 3 - Summary of Significant Accounting Policies (continued)

Assessments Received in Advance

Assessments received in advance at the balance sheet date represent payments received from association members during the current year, which relate to maintenance assessments for the subsequent year.

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.

Fair Value of Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable. The recorded values of the cash and cash equivalents, accounts receivable, prepaid expenses and accounts payables approximate their fair values based on their short-term nature.

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 unit owners in common and not by the Association. The Association capitalizes significant real and personal property to which it has title or other evidence of ownership at cost. At August 31, 2018, the Association has not capitalized such property.

Note 4- Assessments Receivable

Assessments receivable from the homeowners consists of maintenance assessments billed prior to August 31, 2018. Accounts are deemed delinquent when payment is not received within 30 days of billing. Accounts are charged to operations when they are deemed uncollectible based upon periodic reviews of aging and collections. The allowance for doubtful accounts at August 31, 2018 is not necessary.

Note 5 - Federal Income Tax

Annually, the Association may elect to be taxed as either a homeowner association (Form 1120-H) or regular corporation (Form 1120). In 2017, the association elected to file as a homeowners' association in accordance with Internal Revenue Service Code 528. Under that section, the association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The association's investment income and other nonexempt income are subject to tax to the extent they exceed related expenses. For year ended August 31, 2018, the Association filed as a homeowner association and the tax liability is \$323.

The Oaks Condominium Association, Inc.
Notes to Financial Statements
August 31, 2018

Note 5 - Federal Income Tax (Continued)

The Association adopted the accounting for uncertainty for income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit. The Association's federal income tax returns for 2015, 2016, and 2017 remain open to examination by the Internal Revenue Service. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 6 – State Franchise Tax

The Association is exempt from Texas franchise tax as specified under Section 171.082 of the Texas Tax Code as a homeowners' association.

Note 7 – Long Tern Contract

In March 2013, the Association renewed a contract with a cable service provider to obtain bulk service rates for unit owners. The agreement expires in February 2020. The Association has remaining annual commitments as follows:

<u>For the Year Ending August 31,</u>	
2019	\$ 229,917
2020	<u>118,295</u>
Total	<u>\$ 348,212</u>

Note 8 - Future Major Repairs and Replacements

The Association's governing documents require funds be accumulated for future major repairs and replacements. The board is funding for major repairs and replacements over the remaining useful lives of the components based on a study in 2016 providing estimates of current replacements costs and considering amounts previously accumulated in the replacement fund. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

Funds are being accumulated in the replacement fund based on estimated future costs of repairs and replacements. Actual expenditures may vary from the estimated future expenditures and the variations may be material. Therefore, amounts accumulated in the replacement fund may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to homeowners' approval, to increase regular assessments, pass additional special assessments, or delay major repairs and replacements until funds are available.

The Oaks Condominium Association, Inc.
Notes to Financial Statements
August 31, 2018

Note 9 – Pending Lawsuits

There are two pending lawsuits involving the Association at the date of this report. The plaintiffs in both lawsuits are the current residents of the Association.

In the first case, the plaintiff alleges that the Association failed to satisfy its duties under the Association's Declaration and it is responsible for the damage to the plaintiff's property. The plaintiff has pled damages of between \$100,000 and \$200,000.

In the second case, the plaintiff allegedly tripped on a crack in the walkway and broke the ankle. The plaintiff is seeking reimbursement from the Association for the damages and has pled damages of between \$200,000 and \$1,000,000.

Both of the lawsuits are still at the initial phase and the Association is not able to estimate the possible loss. As of December 31, 2017, and through the date of this report, no amount of loss contingency has been recorded.

Note 10 – Subsequent Events

Upon evaluation, the Association notes that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.

The Oaks Condominium Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
August 31, 2018
(Unaudited)

An independent engineer conducted a study in 2016 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. The 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 components will repair or replacement.

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

Components	Estimated Remaining Life (Years)	Estimated Current Replacement Cost
Boilers	5	\$ 64,450
Electrical	45	175,000
Fences	1-17	65,000
Foundations	1-2	175,000
Golf carts	1-5	15,000
Gutters, downspouts	1-5	28,000
Landscape	1	150,000
Lighting	1-5	12,000
Mailboxes	1-9	10,000
Maintenance equipment	1-5	12,000
Office equipment	1-2	8,000
Pools	1-1	45,000
Retaining walls	1-2	28,000
Roofs	1-20	1,004,500
Sidewalks	1-17	165,000
Siding	1-8	850,000
Signage	1-2	5,000
Stairs/balconies	1-9	170,000
Transformers	1-12	86,000
Interest		6,775
Total		\$ 3,074,725

As of August 31, 2018, replacement fund has a balance of \$1,316.955.