



KEN SKRABANEK, CPA

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May 6, 2018

To the Board of Directors
Meadow Lake Village Homeowners Association, Inc.
Baytown, Texas

Ladies and Gentlemen:

I have audited the financial statements of Meadow Lake Village Homeowners Association, Inc. for the year ended December 31, 2016, and have issued my report thereon dated May 6, 2018. Professional standards require that I provide you with information about my responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of my audit. I have communicated such information in various communications with you. Professional standards also require that I communicate to you the following information related to my audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices--

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Meadow Lake Village Homeowners Association, Inc. are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal 2016. I noted no transactions entered into by the Association during this year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future event. Certain accounting estimates are particularly sensitive because of their significance to the

financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate of the Association is the evaluation of receivables from owners and their collectibility. Management concluded that all owner receivables outstanding at December 31, 2016 were collectible.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosures made in Note 4 to the financial statements. This disclosure lets the reader know that accumulated funds for future major repairs and replacements may not be adequate to fund all such repairs and replacements.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit--

I did not encounter any major difficulties in performing the audit.

Corrected and Uncorrected Misstatements--

Professional standards require me to accumulate all misstatements identified during the audit, other than those that are clearly trivial and communicate them to the appropriate level of management. The misstatements I noted included recording expenses in the proper accounting period.

The adjustments to the financial statements were provided to the managing agent of the Association.

Disagreements with Management--

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether resolved or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations-

I have requested certain representations from management that are included in the management representation letter dated May 6, 2018.

Management Consultation with Other Independent Accountants-

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues-

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

I noted no other matters that should be brought to your attention.

Meadow Lake Village Homeowners Association, Inc.
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This report is intended solely for the information and use of the management and Board of Directors of the Association and is not intended to be and should not be used by anyone other than these specified parties.

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Ken. Skrabanek, CPA

DRAFT

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

**Ken Skrabanek, CPA
P.O. Box 1246
Crosby, Texas 77532**

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
FINANCIAL STATEMENTS
For the Year Ended December 31, 2016

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Independent Auditor's Report

To the Board of Directors
Meadow Lake Village Homeowners Association, Inc.
Baytown, Texas

Report on the Financial Statements

I have audited the accompanying financial statements of Meadow Lake Village Homeowners Association, Inc. Which comprise the balance sheet as of December 31, 2016, and the related statements of revenues and expenses, changes in fund balances, and cash flows for the year then ended, and the 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 the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.



KEN SKRABANEK, CPA

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Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadow Lake Village Homeowners Association, Inc. as of December 31, 2016, and the results of its operations and its cash flows for the years 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 basis financial statements, is required by the Financial Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other information I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient information to express an opinion or provide any assurance.

Ken Skrabanek, CPA
Crosby, Texas
May 6, 2018

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
December 31, 2016

	<u>Operating Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS			
Cash	\$192,758	\$180,203	\$372,961
Assessments receivable	128,185	-	128,185
Prepaid expenses	9,493	-	9,493
Equipment, net	32,507	-	32,507
Due (to) from other funds	89,092	(89,092)	-
Total Assets	<u>\$452,035</u>	<u>\$91,111</u>	<u>\$543,146</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$11,162	\$-	\$11,162
Federal income tax payable	668	-	668
Total Liabilities	11,830	-	11,830
Fund balances	<u>440,205</u>	<u>91,111</u>	<u>531,316</u>
Total Liabilities and Fund Balances	<u>\$452,035</u>	<u>\$91,111</u>	<u>\$543,146</u>

The accompanying notes are an integral part of the financial statements.

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2016

	Operating Fund	Capital Projects Fund	Total
REVENUES			
Homeowner assessments	\$260,962	\$46,100	\$307,062
Transfer fees	13,000	-	13,000
Legal fee recoveries	55,551	-	55,551
Late charges and other	27,889	180	28,069
Total Revenues	<u>357,402</u>	<u>46,280</u>	<u>403,682</u>
EXPENSES			
Utilities	34,408	-	34,408
Patrol services	67,153	-	67,153
Landscaping	14,872	-	14,872
Pool maintenance	45,091	-	45,091
Major repairs and replacements	-	33,043	33,043
Playground	6,532	-	6,532
Other repairs/maintenance	13,911	-	13,911
Management fees/costs	41,548	-	41,548
Legal fees	50,810	-	50,810
Other administrative costs	24,810	-	24,810
Insurance and taxes	18,655	-	18,655
Bad debt expense	1,380	-	1,380
Total Expenses	<u>319,170</u>	<u>33,043</u>	<u>352,213</u>
Revenues Over (Under) Expenses	38,232	13,237	51,469
Fund Balance, beginning of year	400,818	79,029	479,847
Fund Balance, beginning of year	<u>1,155</u>	<u>(1,155)</u>	<u>-</u>
Fund Balance, end of year	<u><u>\$440,205</u></u>	<u><u>\$91,111</u></u>	<u><u>\$531,316</u></u>

The accompanying notes are an integral part of the financial statements.

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
December 31, 2016

**CASH FLOWS FROM
OPERATING ACTIVITIES**

Revenues over (under) expenses	51,469
Adjustments to reconcile to net cash provided by operating activities:	
Provision for bad debts	1,380
Depreciation and amortization expense	4,689
(Increase) decrease in assets:	
Assessments receivable	(20,922)
Prepaid expenses	(115)
Increase (decrease in liabilities)	
Accounts payable	(7,732)
Federal income tax payable	668
	<u>668</u>

**NET CASH PROVIDED BY (USED FOR)
OPERATING ACTIVITIES**

29,437

**NET CASH PROVIDED BY (USED FOR)
INVESTING ACTIVITIES**

Purchase of property	<u>(314)</u>
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NET INCREASE (DECREASE) IN CASH

29,123

CASH, BEGINNING OF YEAR

343,838

CASH, END OF YEAR

\$372,961

SUPPLEMENTAL DISCLOSURES:

Income taxes paid	<u><u>\$668</u></u>
Interest paid	<u><u>\$-</u></u>

The accompanying notes are an integral part of the financial statements.

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 1 - Nature of Organization

Meadow Lake Village Homeowners' Association, Inc. (the "Association") was incorporated as a Texas non-profit corporation in April, 1981. The Association (previously know as Meadow Lake Homeowner's Association) filed an amendment to the Articles of Incorporation on November 12, 2009 to change to its current name. The purpose of the Association is to provide for the operation and maintenance of the common property of Meadow Lake Village, a residential community located in Baytown, Texas. The Association consists of 766 full lots and two half lots.

Note 2 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Association is presented to assist in understanding the Association's financial statements. The financial statements and notes are the representation of the Association's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred.

Fund Accounting

The Association's governing documents provide for the accumulation of funds to meet future major repairs and replacements. As a result, 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.

Capital Projects Fund—This fund is used to accumulate financial resources designated for special projects within the Association's common property.

Member Assessments

Association members are subject to yearly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Any excess assessments at year end are retained by the Association for use in future years. Liens can be attached

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Property and Equipment

In accordance with generally accepted accounting practices for homeowners associations, real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements.

The Association owns certain equipment, primarily playground equipment. Such equipment is depreciated over lives ranging from five to fifteen years. Depreciation expense for the year ended December 31, 2016 amounted to \$4,447 and accumulated depreciation amounted to \$47,256.

Income Taxes

Community associations may be taxed either as a homeowner association or as a regular corporation. For the tax year ending December 31, 2016, the Association was taxed as a homeowner association. As such, the Association is taxed only on its non-member income, which consisted of interest income, pool rentals, and other nonmember income. For the year ended December 31, 2016, the Association owed \$668 of federal income taxes.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Association considers investments with an original maturity of three months or less to be cash equivalents.

Note 3 - Management Contract

The Association is managed by Regina Real Management Services (the "manager"). For its services, the manager is paid a monthly fee of \$2,800, plus reimbursement for mileage and certain administrative costs.

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

Note 4 - Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. The accumulated fund balance in the capital projects fund amounted to approximately \$91,111 at December 31, 2016.

In 2015, the Association engaged an independent consulting firm to conduct a study and estimate the remaining useful lives and the replacement costs of the components of common property. Results of the study are presented on page 10.

The reserve study concluded that an amount of \$35,248 would need to be added to the reserve fund each year in order to fully fund needed major repairs and replacements. Based on the results of the study, the reserve fund was at a level which exceeded necessary amounts at December 31, 2016. I

If additional funds are needed for the purposes of funding necessary major repairs and replacements, the Association has the right, subject to membership approval, to increase regular assessments or pass special assessments, or may delay such replacements until funds are available.

Note 5 -Date of Managements Review

Subsequent events were evaluated through May 6, 2018, which is the date the financial statements were available to be issued.

Note 6 - Fair Value of Financial Instruments

The Association's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and prepaid assessments. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

Note 7 - Concentration of Credit Risks

The Association maintains its cash accounts in a local bank. At December 31, 2016, the Association's cash balances exceeded the FDIC's coverage of \$250,000. The Association has not incurred any losses as a result of maintaining cash balances in excess of FDIC coverage. Management of the Association does not believe the Association is exposed to any significant risk as a result of maintaining cash balances in excess of FDIC coverage. Subsequent to December 31, 2016, monies held by the capital projects fund were transferred to another bank, resulting in all bank accounts held by the Association being covered by FDIC insurance.

SUPPLEMENTARY INFORMATION

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
December 31, 2016

In 2015, the Association engaged an independent consulting firm to conduct a study and estimate the remaining useful lives and the estimated costs of future major repairs and replacements. Replacement costs were based on the estimated costs to repair or replace the common property at the date of the study. The total estimated current replacement costs do not take into account the effects of inflation.

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

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>
Install club parking area	1	\$ 30,000
Repair concrete pavement	2	1,000
Repair concrete sidewalks	3	1,000
Replace play area fencing	8	11,000
Replace overhead doors	6	4,000
Replace kitchen cabinets	15	5,500
Replace kitchen appliances	15	2,000
Replace clubhouse furniture	10	4,500
Install ventilation equip.	1	1,000
Replace pool filtration	2	6,500
Replace A/C units	5	1,500
Replace lawn irrigation	4	2,000
Replace water heater	5	1,000
Replace exterior shower fixtures	4	2,000
Replace landscape lighting	12	2,500
Upgrade security cameras	6	5,000
Replace children's playset	16	30,000
Replace swing set	16	2,150
Replace picnic tables	13	1,400
Replace metal benches	11	900
Replace matting	1	12,500
Replace spring rocker playsets	16	1,000
Resurface swimming pools	9	25,000
Replace pool furniture	12	5,500
Resurface tennis courts	8	15,000
Replace tennis lighting	8	15,000
Refurbish basketball court	4	5,000
Repair swimming pool deck	10	20,000
Replace pool shade covers	6	4,000

MEADOW LAKE VILLAGE HOMEOWNERS ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE
 MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 December 31, 2016

<u>Component</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>
Replace life guard stands	4	4,000
Replace diving board	8	2,500
Refurbish clubhouse	9	15,000
Update reserve study	3	<u>3,250</u>
Total		\$ <u>242,700</u>

At December 31, 2016, the Association had a fund balance of \$91,111 in its capital projects fund.

The accompanying notes are an integral part of the financial statements