

**Meyerland Community
Improvement Association
(A Texas Non-Profit Corporation)**

Financial Statements

December 31, 2016

Caren Canady P.C.
Certified Public Accountants
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Independent Auditor's Report

**The Board of Directors of
Meyerland Community Improvement Association**

Report on the Financial Statements

We have audited the accompanying financial statements of Meyerland Community Improvement Association, which comprise the balance sheet as of December 31, 2016, and 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.

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Independent Auditor's Report

**The Board of Directors of
Meyerland Community Improvement Association**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meyerland Community Improvement Association as of December 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.

Report on Supplementary Information

Management has omitted the information about the estimates of future costs of major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Caren Canady P.C.

Sugar Land, Texas
April 24, 2018

Meyerland Community Improvement Association
Balance Sheet
December 31, 2016

Assets

Cash	\$	136,079
Certificates of deposit		400,000
Assessments receivable, net of allowance for doubtful acct of \$ 3,000		125,123
Prepaid security expenses		43,425
Deposits		1,000
Land		161,518
Prepaid insurance		<u>3,458</u>
Total Assets	\$	<u>870,603</u>

Liabilities and Members' Equity

Accounts payable	\$	30,399
Escrow fees		15,538
Assessments paid in advance		<u>6,916</u>
Total Liabilities		52,853
Members' Equity		<u>817,750</u>
Total Liabilities and Members' Equity	\$	<u>870,603</u>

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

Meyerland Community Improvement Association
Statement of Revenues, Expenses and Changes in Members' Equity
For the Year Ended December 31, 2016

Revenues	
Security assessments	\$ 546,914
Maintenance assessments	517,890
Other	29,075
Transfer fee	11,300
Interest	7,805
Total Revenues	<u>1,112,984</u>
Expenses	
Security	556,786
Landscape	260,002
Salaries	165,138
Legal	78,554
Office expense	45,496
Insurance	34,274
Payroll taxes	12,709
MCIA events	8,948
Utilities	8,426
Audit and tax return preparation	5,245
Donations	2,975
Building cost	2,294
Committees and annual meeting	2,021
Office remodel	1,665
Depreciation	1,052
Ad valorem taxes	3
Total Expenses	<u>1,185,588</u>
(Deficit) of revenues over expenses	(72,604)
Members' equity - Beginning of year	<u>890,354</u>
Members' equity - End of year	<u>\$ 817,750</u>

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

Meyerland Community Improvement Association
Statement of Cash Flows
For the Year Ended December 31, 2016

Cash flows from operating activities	
Deficit of revenues over expenses	\$ (72,604)
Adjustments to reconcile deficit of revenues over expenses to net cash provided (used) by operating activities:	
Depreciation	1,052
(Increase) decrease in:	
Assessments receivable	(72,409)
Prepaid insurance	3,150
Increase (decrease) in:	
Accounts payable	10,794
Escrow fees	4,991
Assessments paid in advance	<u>(230,804)</u>
Net cash provided (used) by operating activities	(355,830)
Net cash provided by financing activities	
Certificates of deposit	<u>250,000</u>
Net increase (decrease) in cash and cash equivalents	(105,830)
Cash and cash equivalents, beginning of year	<u>241,909</u>
Cash and cash equivalents, end of year	<u>\$ 136,079</u>
Supplemental disclosure	
Income taxes paid	\$ -
Interest paid	\$ -

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

Meyerland Community Improvement Association
Notes to Financial Statements
December 31, 2016

Note 1 - Organization

Meyerland Community Improvement Association (the Association) is a Texas non-profit corporation incorporated in September 1954 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 2,306 residential units in the Houston, Texas.

Note 2 - Management's Review

In preparing the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through April 24, 2018, the date that the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies

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 members. Any excess assessments at year end are retained by the Association for use in the succeeding year. Income received in advance is deferred and amortized over the period to which it relates. During the year ended December 31, 2016 assessments for each lot were based upon 2.1123 cents per square foot of property.

Assessments for Security Services

The Association amended all twenty-two deed restrictions to allow for an assessment for security services to be due annually on January 1. In addition to secure payment of the assessment for security services, a lien against each lot shall be imposed and retained in the same manner as the maintenance fees. The Association shall apply the total funds arising from such assessments toward the payment of expenses incurred for security services. The assessment for security services is fixed at a uniform rate for all lots. The fee was \$237 per lot for the year ended December 31, 2016.

Federal Income Tax

The Association has a ruling for tax-exempt status from the Internal Revenue Service and is therefore a non-taxable entity for federal income tax purposes under section 501(c) (4).

The Association adopted the new 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 by various taxing authorities. The Association's federal income tax returns for year 2014, 2015 and 2016 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.

Meyerland Community Improvement Association
Notes to Financial Statements
December 31, 2016

Note 3 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Certificates of deposits and all highly liquid financial instruments purchased with an initial maturity of three months or less is considered to be cash equivalents.

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. The recorded values of the cash and cash equivalents approximate their fair values based on their short-term nature.

Note 4 - Fixed Assets

The Association is responsible for preserving and maintaining the common area properties. Major classifications of property and equipment and their respective lives are summarized below.

<u>Description</u>	<u>Cost</u>	<u>Method</u>
Office Building and Property	\$ 51,221	SL - 5-10 yrs
Machines and Equipment	12,453	SL - 5 yrs
	63,674	
Accumulated Depreciation	(63,674)	
	<u>\$ -</u>	
<u>Association land</u>		
.5716 acres of land	\$ 151,518	N/A
Easement for noise wall	10,000	N/A
	<u>\$ 161,518</u>	

Note 5 - State Franchise Tax and Sales Tax

The Association is exempt from Texas franchise tax as specified under Section 171.082 of the Texas Tax Code as a homeowners' association. The Association is exempt from sales tax as 501(c) (4).

Meyerland Community Improvement Association
Notes to Financial Statements
December 31, 2016

Note 6 - Escrow Fund

The escrow fund was created as a result of the Association's agreement to subordinate its lien securing payment of the annual maintenance assessment against property purchased by loans which are insured by the FHA, VA and FNMA. For granting the subordination, the property owner deposits with the Association a sum of money to be held in escrow. A portion of that sum plus the interest earned on the balance of the deposit shall be applied as a credit (payment) to the future annual maintenance assessments against such property. If the amount earned on a deposit exceeds the amount of the annual maintenance assessment in any given year, the Association has the right to retain such excess as reimbursement of cost and expense of administration and accounting for the deposit and as future consideration for granting the subordination of lien. The escrow agreement provides for circumstances whereby additional deposits may be required from a property owner and whereby a return of the unused deposit may be made to a property owner.

Note 7 - Future Major Repairs and Replacements

The Association's governing documents do not require that funds be accumulated for future major repairs and replacements, but such determination can be made by the Board of Directors. The purpose of the annual assessment is to (1) provide the working capital necessary to meet the Association's annual operating expenses and (2) maintain a reserve for repair and replacement of the general common elements of the Association.

The Association has not conducted a study 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. The board has also not developed a plan to fund those needs. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments in accordance with the Consumer Price Index based on a 1979 basis, or delay major repairs and replacements until funds are available. The effect on the future assessments has not been determined at this time.

Note 8 - Litigation

The Association is party to various legal actions normally associated with homeowner associations, such as collection of delinquent assessments, covenant compliance and other matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

The Association filed a lawsuit against homeowners for violations of the restrictive covenants. The Defendants filed a counterclaim against the Association seeking damages for breach of contract and defamation. The lawsuit was settled in 2016. The Association had insurance coverage and did not incur any expenses.

Meyerland Community Improvement Association
Notes to Financial Statements
December 31, 2016

Note 9 - Subsequent Events

In August 2017, Hurricane Harvey made landfall in Houston. The impact of the hurricane caused significant damage to many homes within the Association. Many of the homes had previously flooded due to two other recent storms. The Board temporarily granted relief from late collection fees. Full collection activity is anticipated to resume in May 2018. Despite the damage inflicted, collections appear to be recovering.

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