

**GREENBRIAR TOWNHOMES ASSOCIATION**

**REPORT ON AUDIT OF  
FINANCIAL STATEMENTS**

**For The Year Ended  
December 31, 2017**

Draft for Review and Approval

**GREENBRIAR TOWNHOMES ASSOCIATION**

**TABLE OF CONTENTS**

		<b>Page</b>
1	Independent Auditor's Report	<b>1</b>
2	Balance Sheets	
	December 31, 2017 and 2016	<b>3</b>
3	Statements of Assessments, Revenues and Expenses, and Changes in Fund Balances	
	Years Ended December 31, 2017 and 2016	<b>4</b>
4	Statements of Cash Flows	
	Years Ended December 31, 2017 and 2016	<b>5</b>
5	Notes to Financial Statements	<b>6</b>
6	Supplemental Schedules	
a	Analysis of Assessments, Revenues and Expenses per Average Home owner and as a Percentage of Total Assessments	
	Year Ended December 31, 2017	<b>10</b>
b	Comparison of Actual to Budgeted Assessments, Revenues and Expenses	
	Year Ended December 31, 2017	<b>11</b>
c	Comparative Analysis of Assessments, Revenues and Expenses	
	Years Ended December 31, 2017 to 2015	<b>12</b>
d	Analysis of Capital Improvements and Replacement Expenses	
	Years Ended December 31, 2017 to 2015	<b>13</b>



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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Members of the  
**GREENBRIAR TOWNHOMES ASSOCIATION**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of GREENBRIAR TOWNHOMES ASSOCIATION, which comprise the Balance Sheets as of December 31, 2017 and 2016 and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances and the Statements of Cash Flows for the years 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards as generally accepted in the United States of America. These 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 GREENBRIAR TOWNHOMES ASSOCIATION, as of December 31, 2017 and 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.

### **Report on Supplementary Information**

Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information included under supplemental schedules on pages 10 through 13, as identified in the Table of Contents, is presented for purposes of 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.

### **Omission of Required Supplementary Information about Future Major Repairs and Replacements**

Management has omitted the information on future major repairs on common property, 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.

*Nagesh & Carter, PLLC*

Nagesh & Carter, PLLC  
Houston, Texas  
April 18, 2018

**GREENBRIAR TOWNHOMES ASSOCIATION**

**BALANCE SHEETS**

**As of December 31, 2017 and 2016**

	Operating Fund	Replacement Fund	Totals 31-Dec-17	Memo Totals 31-Dec-16
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$11,558	\$50,026	\$61,584	\$48,393
Accounts receivable	25,656	-	25,656	21,204
Prepaid insurance	2,043	-	2,043	1,685
<b>Total assets</b>	<b>\$39,257</b>	<b>\$50,026</b>	<b>\$89,283</b>	<b>\$71,282</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
Prepaid maintenance fees	\$627	-	\$627	\$682
<b>Total liabilities</b>	<b>627</b>	<b>-</b>	<b>627</b>	<b>682</b>
<b>Fund balance</b>	<b>38,630</b>	<b>\$50,026</b>	<b>88,656</b>	<b>70,600</b>
<b>Total liabilities and fund balance</b>	<b>\$39,257</b>	<b>\$50,026</b>	<b>\$89,283</b>	<b>\$71,282</b>
	-	-	-	-
<i>The accompanying notes are an integral part of these financial statements.</i>				

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**AND CHANGES IN FUND BALANCES**  
**For The Years Ended December 31, 2017 and 2016**

	Operating	Replacement	Totals	Memo
	Fund	Fund	31-Dec-17	Totals 31-Dec-16
<b>Assessments and revenues</b>				
Maintenance fees	\$45,870	-	\$45,870	\$41,700
Tennis and swim fees	5,700	-	5,700	5,700
Late fees and other assessments	3,052	-	3,052	1,076
Interest income	7	\$58	65	64
Legal fees	390	-	390	1,230
Capital reserve transfers	(18,006)	18,006	-	-
<b>Total revenues</b>	<b>37,013</b>	<b>18,064</b>	<b>55,077</b>	<b>49,770</b>
<b>Operating expenses</b>				
Administrative expenses	10,201	-	10,201	11,761
Tennis and swim dues	5,700	-	5,700	5,700
Electricity	834	-	834	1,024
Landscaping	8,700	-	8,700	10,410
Maintenance	2,823	-	2,823	5,433
Insurance	3,812	-	3,812	4,068
Capital improvements	-	4,951	4,951	9,126
<b>Total expenses</b>	<b>32,070</b>	<b>4,951</b>	<b>37,021</b>	<b>47,522</b>
<b>Revenue over (under) expenses</b>	<b>4,943</b>	<b>13,113</b>	<b>18,056</b>	<b>2,248</b>
<b>Fund balance, beginning of the year</b>	<b>33,687</b>	<b>36,913</b>	<b>70,600</b>	<b>68,352</b>
<b>Fund balance, end of the year</b>	<b>\$38,630</b>	<b>\$50,026</b>	<b>\$88,656</b>	<b>\$70,600</b>

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

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**STATEMENTS OF CASH FLOWS**  
For The Years Ended December 31, 2017 and 2016

	Operating Fund	Replacement Fund	Totals 31-Dec-17	Memo Totals 31-Dec-16
<b>Cash flow from (to) operations</b>				
Assessments and revenues over (under) expenses	\$4,943	\$13,113	\$18,056	\$2,248
<i>Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations</i>				
Accounts receivable	(4,452)	-	(4,452)	(2,003)
Prepaid insurance	(358)	-	(358)	(27)
Prepaid assessments	(55)	-	(55)	366
<b>Total cash flow from (to) operations</b>	<b>78</b>	<b>13,113</b>	<b>13,191</b>	<b>584</b>
Cash and cash equivalents, beginning of the year	11,480	36,913	48,393	47,809
<b>Cash and cash equivalents, end of the year</b>	<b>\$11,558</b>	<b>\$50,026</b>	<b>\$61,584</b>	<b>\$48,393</b>

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



**GREENBRIAR TOWNHOMES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2017 and 2016**

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**1. NATURE OF ORGANIZATION**

GREENBRIAR TOWNHOMES ASSOCIATION ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on January 5, 1995.

The Association is the governing body for the homeowners of Greenbriar Townhomes Association, a 25-unit townhome complex in Houston, Texas. The specific and primary purpose for which this corporation is organized is to enforce the terms of that certain instrument entitled "Declaration of Amended Covenants, Conditions, Restrictions and Easements for Greenbriar Townhomes.

The affairs of the Association are managed and controlled by its Board of Directors. These Directors are empowered to exercise, on behalf of the Association, all of the powers, duties, and authorities vested or delegated to it by virtue of the Association's By-Laws, Articles of Incorporation, Declarations and/or Covenants.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**METHOD OF ACCOUNTING**

The Association is a not-for-profit organization, which employs the fund method of accounting on an accrual basis in order to properly account for restrictions on the expenditures resulting from actions of the Board or the homeowners. These financial statements segregate the accounting for such funds into operating and capital reserve or replacement funds.

Operating Fund – This fund is used to account for financial resources available for the general operations of the Association. The disbursements from the operating fund are generally at the discretion of the Board and property managers and are used for operating expenses.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. The disbursements from the capital reserve or replacement fund generally may only be utilized in accordance with the purposes established.

**OWNERS ASSESSMENTS**

Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The assessments or maintenance fees assessed are based on an annual budget as adopted by the Board pursuant to the governing documents of the Association.



**GREENBRIAR TOWNHOMES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2017 and 2016**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**CASH AND CASH EQUIVALENTS**

For the purposes of reporting cash flows, the Association considers all highly liquid investments purchased with an original maturity of three months or less as cash and cash equivalents in the accompanying balance sheet. The Association has interest bearing deposits in financial institutions that maintained FDIC insurance in full for all accounts and limited coverage up to \$250,000 per financial institution. The portion of deposits in excess of this amount is not subject to such insurance and represents a credit risk to the Association. At times, balances held at each financial institution may exceed \$250,000 which represents a credit risk to the Association.

**CAPITALIZATION POLICY**

The replacements and improvements to the real property and common areas are expensed in the year incurred.

**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.

**DATE OF MANAGEMENT REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through April 18, 2018, the date that the financial statements were available to be issued.

**MEMO CAPTIONS**

The "Memo" captions, when used on the columns of the combined statements, means totals are presented as an overview and for informational purposes only. They present the financial position, results of operations and statement of cash flows for the Association as a whole but do not present in detail the amounts of the various funds.

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2017 and 2016**

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**3. ACCOUNTS RECEIVABLE**

The Association's accounts receivable represents payments due from delinquent homeowners. The balances are from a few homeowners, some of whom are seriously delinquent. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these homeowners. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the homeowner's association such as mortgage lien holders, delinquent property tax liens, and/or bankruptcies by the homeowners.

When the assessments are deemed not collectible, as result of foreclosure, bankruptcy, etc., the Association writes off the account as bad debts. Generally accepted accounting principles require that the management estimate the accounts that may have to be written off and provide an allowance for doubtful accounts and include that as bad debts expense each year.

As of December 31, 2017, and 2016 the Association had assessments receivable of \$25,656 and \$21,204, respectively. It is the opinion of the management that the Association will prevail against the homeowners whose assessments are delinquent and that the net uncollectible assessments from any one year is insignificant, and, accordingly no allowance for uncollectible accounts is deemed necessary.

**4. REPLACEMENT FUNDING PROGRAM**

The Association's common property consists of street lights and common area landscape. The Association is responsible for repairs and replacement of the common property, and the support provided by owners should include amounts to provide for funding of common area expenses. The support provided by the owners for these future expenses are segregated and accounted for as capital reserve or replacement funds, and are generally not used for normal operating expenses.

An independent study to determine the costs and funding program for the replacement of the Association's common areas has not been conducted. Accordingly, the current program may not be sufficient to meet all future replacement costs. Therefore, when replacement funds are needed, the Association, pursuant to the by-laws, may have to increase the monthly assessments, pass special assessments, borrow, or delay replacement until funds are available.

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**For The Years Ended December 31, 2017 and 2016**

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**5. FEDERAL INCOME TAXES**

Homeowners' Associations may be taxed either as Homeowners' Associations under Section 528 of the Internal Revenue Code or regular Corporations as a membership organization under Section 277 of the Internal Revenue Code.

As a regular Corporation, membership income is exempt from taxation if the required elections are made (such as returning to homeowners' excess funds or reducing future assessments). Then the Association is taxed only on its non-membership income (such as interest earnings) at regular federal corporate income tax rates. The Corporate tax rates are graduated based on income levels from a minimum of 15% to a maximum rate of 39%.

As a Homeowners' Association, the Association is taxed on its non-exempt function income (such as interest earnings) in excess of \$100 at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, are not taxable.

The Association elected to file its tax return as a Homeowners' Association for the years ended December 31, 2017 and 2016.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for 2017, 2016, and 2015 remain open to examination by the Internal Revenue Service; state franchise returns for 2018, 2017 and 2016 are open to examination. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.



**SUPPLEMENTAL SCHEDULES**

Draft for Review and Approval



**GREENBRIAR TOWNHOMES ASSOCIATION**  
**ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**PER AVERAGE HOMEOWNER AND AS A PERCENTAGE OF TOTAL ASSESSMENTS**  
**For The Year Ended December 31, 2017**

	Total Amount	Average Per Month	As a % of Assessment
<b>Assessments and revenues</b>			
Maintenance fees	\$45,870	\$152.90	100.00%
Tennis and swim fees	5,700	19.00	12.43%
Late fees and other assessments	3,052	10.17	6.65%
Interest income	65	0.22	0.14%
Legal fees	390	1.30	0.85%
<b>Total assessments and revenues</b>	<b>55,077</b>	<b>183.59</b>	<b>120.07%</b>
<b>Administrative services</b>			
Management fees	6,240	20.80	13.60%
Professional fees - auditing	1,200	4.00	2.62%
Professional fees - legal	665	2.22	1.45%
Office supplies and postage	2,096	6.99	4.57%
<b>Total administrative services</b>	<b>10,201</b>	<b>34.00</b>	<b>22.24%</b>
<b>Tennis and swim dues</b>	<b>5,700</b>	<b>19.00</b>	<b>12.43%</b>
<b>Electricity</b>	<b>834</b>	<b>2.78</b>	<b>1.82%</b>
<b>Landscaping</b>	<b>8,700</b>	<b>29.00</b>	<b>18.97%</b>
<b>Maintenance</b>			
Porter maintenance	2,037	6.79	4.44%
Plumbing repairs	211	0.70	0.46%
Roof repairs	425	1.42	0.93%
Supplies	150	0.50	0.33%
<b>Total maintenance</b>	<b>2,823</b>	<b>9.41</b>	<b>6.15%</b>
<b>Insurance</b>	<b>3,812</b>	<b>12.71</b>	<b>8.31%</b>
<b>Capital improvements</b>	<b>4,951</b>	<b>16.50</b>	<b>10.79%</b>
<b>Total expenses</b>	<b>37,021</b>	<b>123.40</b>	<b>80.71%</b>
<b>Net assessments, revenues over (under) expenses</b>	<b>\$18,056</b>	<b>\$60.19</b>	<b>39.36%</b>

*The foregoing notes are an integral  
part of these financial statements.*

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**COMPARISON OF ASSESSMENTS, REVENUES AND EXPENSES**  
**ACTUAL TO BUDGET AMOUNT**  
**For The Year Ended December 31, 2017**

	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
<b>Assessments and revenues</b>			
Maintenance fees	\$45,870	\$45,864	\$6
Adjustments and write-offs	-	(2,400)	2,400
Tennis and swim fees	5,700	5,700	-
Late fees and other assessments	3,052	600	2,452
Interest income	65	12	53
Legal fees	390	300	90
<b>Total assessments and revenues</b>	<b>55,077</b>	<b>50,076</b>	<b>5,001</b>
<b>Administrative services</b>			
Management fees	6,240	6,240	-
Professional fees - auditing	1,200	1,320	120
Professional fees - legal	665	1,200	535
Office supplies and postage	2,096	4,176	2,080
<b>Total administrative services</b>	<b>10,201</b>	<b>12,936</b>	<b>2,735</b>
<b>Tennis and swim dues</b>	<b>5,700</b>	<b>5,700</b>	<b>-</b>
<b>Electricity</b>	<b>834</b>	<b>1,380</b>	<b>546</b>
<b>Landscaping</b>	<b>8,700</b>	<b>9,300</b>	<b>600</b>
<b>Maintenance</b>			
Building and structural	-	1,980	1,980
Miscellaneous repairs	-	264	264
Porter maintenance	2,037	2,100	63
Plumbing repairs	211	240	29
Roof repairs	425	2,400	1,975
Supplies	150	720	570
<b>Total maintenance</b>	<b>2,823</b>	<b>7,704</b>	<b>4,881</b>
<b>Insurance</b>	<b>3,812</b>	<b>4,140</b>	<b>328</b>
<b>Capital improvements</b>	<b>4,951</b>	<b>8,916</b>	<b>3,965</b>
<b>Total expenses</b>	<b>37,021</b>	<b>\$50,076</b>	<b>13,055</b>
<b>Net assessments, revenues over (under) expenses</b>	<b>\$18,056</b>	<b>-</b>	<b>\$18,056</b>

*The foregoing notes are an integral  
part of these financial statements.*

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Years Ended December 31, 2017 to 2015**

	31-Dec-17	Memo 31-Dec-16	Memo 31-Dec-15
<b>Assessments and revenues</b>			
Maintenance fees	\$45,870	\$41,700	\$41,700
Tennis and swim fees	5,700	5,700	5,700
Late fees and other assessments	3,052	1,076	1,997
Interest income	65	64	61
Legal fees	390	1,230	665
<b>Total assessments and revenues</b>	<b>55,077</b>	<b>49,770</b>	<b>50,123</b>
<b>Administrative services</b>			
Management fees	6,240	6,240	6,240
Professional fees - auditing	1,200	1,000	1,050
Professional fees - legal	665	1,320	665
Office supplies and postage	2,096	3,201	2,479
<b>Total administrative services</b>	<b>10,201</b>	<b>11,761</b>	<b>10,434</b>
<b>Tennis and swim dues</b>	<b>5,700</b>	<b>5,700</b>	<b>5,700</b>
<b>Electricity</b>	<b>834</b>	<b>1,024</b>	<b>1,145</b>
<b>Landscaping</b>	<b>8,700</b>	<b>10,410</b>	<b>9,055</b>
<b>Maintenance</b>			
Building and structural	-	1,717	486
Porter maintenance	2,037	951	2,077
Plumbing repairs	211	417	424
Roof repairs	425	531	2,430
Supplies	150	1,817	-
<b>Total maintenance</b>	<b>2,823</b>	<b>5,433</b>	<b>5,417</b>
<b>Insurance</b>	<b>3,812</b>	<b>4,068</b>	<b>4,055</b>
<b>Capital improvements</b>	<b>4,951</b>	<b>9,126</b>	<b>208</b>
<b>Total expenses</b>	<b>37,021</b>	<b>47,522</b>	<b>36,014</b>
<b>Net assessments, revenues over (under) expenses</b>	<b>\$18,056</b>	<b>\$2,248</b>	<b>\$14,109</b>

*The foregoing notes are an integral  
part of these financial statements.*

**GREENBRIAR TOWNHOMES ASSOCIATION**  
**ANALYSIS OF CAPITAL IMPROVEMENTS AND REPLACEMENT EXPENSES**  
**For The Years Ended December 31, 2017 to 2015**

Capital Reserve Component	31-Dec-17	Memo 31-Dec-16	Memo 31-Dec-15
<b>Replacement fund balance, beginning of the year</b>	<b>\$36,913</b>	<b>\$38,467</b>	<b>\$28,404</b>
<b>Additions to fund balance</b>			
Transfers from (to) operating fund	18,006	7,516	10,226
Investment income	58	56	45
<b>Total additions</b>	<b>18,064</b>	<b>7,572</b>	<b>10,271</b>
<b>Reductions from fund balance</b>			
Roof repairs	4,951	2,080	208
Hardi plank	-	2,309	-
Sidewalk	-	1,193	-
Patio fence	-	690	-
Gutters	-	866	-
Other general repairs	-	1,988	-
<b>Total expenses</b>	<b>4,951</b>	<b>9,126</b>	<b>208</b>
<b>Replacement fund balance, end of the year</b>	<b>\$50,026</b>	<b>\$36,913</b>	<b>\$38,467</b>

*The foregoing notes are an integral  
part of these financial statements.*