

**Kings Forest Community Association, Inc.**

**Audited Financial Statements**

**December 31, 2021**



# Canady & Canady

CERTIFIED PUBLIC ACCOUNTANTS | A MEMBER OF THE SICPA NETWORK

## Independent Auditor's Report

To the Board of Directors of  
**Kings Forest Community Association, Inc.**

### **Opinion**

We have audited the accompanying financial statements of **Kings Forest Community Association, Inc.** (the "Association"), which comprise the balance sheet as of December 31, 2021, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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## Independent Auditor's Report (continued)

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

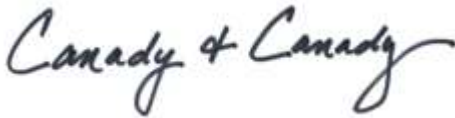
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## Independent Auditor's Report (continued)

### *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 11 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 26, 2022

**Kings Forest Community Association, Inc.**  
**Balance Sheet**  
**December 31, 2021**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 130,092	\$ 131,807	\$ 261,899
Assessments receivable	11,362	-	11,362
Prepaid expenses	1,144	-	1,144
Fixed assets, net of accumulated depreciation of \$422,492	24,235	-	24,235
<b>TOTAL ASSETS</b>	<u>\$ 166,833</u>	<u>\$ 131,807</u>	<u>\$ 298,640</u>
<b>LIABILITIES &amp; FUND BALANCES</b>			
Accounts payable and accruals	\$ 2,535	\$ -	\$ 2,535
Assessments received in advance	90,065	-	90,065
Contract liabilities	-	131,608	131,608
<b>TOTAL LIABILITIES</b>	<u>92,600</u>	<u>131,608</u>	<u>224,208</u>
<b>Fund Balances</b>	<u>74,233</u>	<u>199</u>	<u>74,432</u>
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u>\$ 166,833</u>	<u>\$ 131,807</u>	<u>\$ 298,640</u>

See accompanying notes to financial statements.

**Kings Forest Community Association, Inc.**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended December 31, 2021**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>REVENUES</b>			
Assessments	\$ 152,246		\$ 152,246
Trash reimbursement	23,430	-	23,430
Interest	65	199	264
Other income	6,367	-	6,367
<b>Total Revenues</b>	<u>182,108</u>	<u>199</u>	<u>182,307</u>
<b>EXPENSES</b>			
Utilities	75,301	-	75,301
Management	29,369	-	29,369
Landscaping	22,524	-	22,524
Repair and maintenance	22,104	-	22,104
Insurance	14,964	-	14,964
Legal and professional	7,952	-	7,952
Office and administrative	7,437	-	7,437
Depreciation	5,375	-	5,375
Bad debt	494	-	494
Property tax	46	-	46
<b>TOTAL EXPENSES</b>	<u>185,566</u>	<u>-</u>	<u>185,566</u>
<b>(Deficit) Excess of Revenues over Expenses</b>	(3,458)	199	(3,259)
<b>FUND BALANCES</b>			
Beginning of year	85,899	-	85,899
Prior period adjustment	(8,208)	-	(8,208)
Ending of year	<u>\$ 74,233</u>	<u>\$ 199</u>	<u>\$ 74,432</u>

See accompanying notes to financial statements.

**Kings Forest Community Association, Inc.**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2021**

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Cash Flows From Operating Activities</b>			
(Deficit) Excess of revenues over expenses	\$ (3,458)	\$ 199	\$ (3,259)
Adjustments to reconcile (deficit) excess of revenues over expenses to net cash provided by operating activities:			
Depreciation	5,375	-	5,375
Bad debt	494	-	494
Decrease in:			
Assessments receivable	1,305	-	1,305
Other receivables	17,610	-	17,610
Prepaid expenses	1,090	-	1,090
(Decrease) increase in:			
Accounts payable and accruals	(13,607)	-	(13,607)
Assessments received in advance	17,588	-	17,588
Contract liabilities	-	20,005	20,005
Net cash provided by operating activities	<u>26,397</u>	<u>20,204</u>	<u>46,601</u>
<b>Cash Flows From Financing Activities</b>			
Prior period adjustment	(8,208)	-	(8,208)
Net cash (used) by financing activities	<u>(8,208)</u>	<u>-</u>	<u>(8,208)</u>
Net increase in cash and cash equivalents	18,189	20,204	38,393
<b>Cash and Cash Equivalents</b>			
Beginning of year	<u>111,903</u>	<u>111,603</u>	<u>223,506</u>
End of year	<u>\$ 130,092</u>	<u>\$ 131,807</u>	<u>\$ 261,899</u>

See accompanying notes to financial statements.

**Kings Forest Community Association, Inc.**  
**Notes to Financial Statements**

**Note 1 – Nature of Organization**

Kings Forest Community Association, Inc. (the “Association”) is a Texas non-profit corporation incorporated on September 25, 1972 for the purpose to provide for the management, maintenance, preservation, operation and architectural control of the Subdivision. The Association is comprised of 265 residential lots in Kingwood, Texas.

**Note 2 - Date of Management’s Review**

In preparing the financial statements, the Association has evaluate the events and transactions for potential recognition or disclosure through December 26, 2022, the date the financial statements were available to be issued.

**Note 3 - Summary of Significant Accounting Policies**

**Basis of Accounting**

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**

The Association uses fund accounting which requires funds allocated for future major repairs and replacements to be classified separately from funds available for general operations. 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.

Replacement Fund – This fund is used to account for financial resources designated for future repairs and replacements.

**Cash and Cash Equivalents**

The Association’s cash and cash equivalents are defined as liquid investments with maturities of three months or less. The Association maintains its cash balances in financial institutions which are members of FDIC. Accounts at the institutions are secured by the Federal Deposit Insurance Corporation (FDIC) under the Federal Government’s Transaction Account Guarantee Program up to \$250,000. As of December 31, 2021, all the cash balance is insured by FDIC.

**Member Assessments**

Association members are subject to annual assessments to provide funds for operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit owners. 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 the succeeding year.



**Kings Forest Community Association, Inc.**  
**Notes to Financial Statements**

**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 (U.S. GAAP), requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Property and equipment**

Generally accepted accounting principles require that property and equipment be recorded at historical cost and/or cost valuation. Depreciation is provided by using the straight line method, based on estimate useful lives of the assets. Maintenance and repairs are charged to operations when incurred.

Industry practice is to only capitalize real property that can be sold without owner approval or generate significant cash flows. The association has decided to capitalize property that the association holds title to but do not meet the capitalization criteria.

A summary of property and equipment as of December 31, 2021 are as follows:

Land	\$	1,440
Swimming pool and pavillion		261,772
Other equipment		125,178
Fence		44,396
Pool resurface		13,941
Accumulated depreciation		(422,492)
	<u>\$</u>	<u>24,235</u>

**Contract Liabilities (Assessments received in advance – replacement fund)**

The Association recognizes revenue from members as the related performance obligations are satisfied. A contract liability (assessments received in advance-replacement fund) is recorded when the Association has the right to receive payment in advance of the satisfaction of performance obligations related to replacement reserve assessments. The balances of contract liabilities (assessments received in advance-replacement fund) as of the beginning and end of the year are \$0 and \$131,608 respectively.

**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, investments, accounts receivable, prepaid expenses and accounts payables approximate their fair values based on their short-term nature.

**Kings Forest Community Association, Inc.**  
**Notes to Financial Statements**

**Note 4 - Assessments Receivable**

Assessments receivable from the homeowners consists of maintenance assessments and other charges billed prior to December 31, 2021. 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. Bad debts are provided on the allowance method (estimate not an actual loss) based on management's evaluation of outstanding accounts receivable. The allowance for doubtful accounts was \$0 at December 31, 2021.

**Note 5 - Federal Income Taxes**

The Association is exempt from Federal income taxes under Section 501(c) (4) of the Internal Revenue Code.

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 return. An entities status, including its status as a tax exempt not for profit entity, is included in the definition of a tax position. The Association's tax filings are subject to audit. The Association's federal income tax returns for 2019, 2020, and 2021 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 – FASB ASC 606 New Accounting Principle Implementation**

The Financial Accounting Standards Board (FASB) issued new guidance that created Topic 606, Revenue from Contracts with Customers, in the Accounting Standards Codification (ASC). Topic 606 supersedes the revenue recognition requirements in FASB ASC 972-605, Real Estate Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when performance obligations are satisfied. The Association implemented the new accounting principle 2020, which affected revenues recognized in the Replacement Fund in 2021 and retrospectively in 2020. The adjustment in 2021 increased Contract Liabilities by \$131,608 and reduced the ending Replacement Fund balance as of December 31, 2021, by the same amount.

**Note 7 - 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 8 - Future Major Repairs and Replacement**

The Association has 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 developed a plan to fund those needs. When replacement funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The effect on the future assessments has not been determined at this time.

**Note 9 – Subsequent Events**

Upon evaluation, the Association notes that there were no material subsequent events between the date of the financial statements and update with date of signed rep letter.

**Kings Forest Community Association, Inc.**  
**Supplementary Information on Future Major Repairs and Replacements**  
**December 31, 2021**  
**(Unaudited)**

An independent engineer conducted a study in September 2019, to estimate the remaining useful lives and the replacement costs of the components of the Association's common property. The following information is based on the study and presents significant information about the components of common property. As of December 31, 2021, the Association's reserve fund balance was \$111,603.

<b>Component</b>	<b>Remaining Life (Yrs)</b>	<b>Total Cost</b>
Asphalt shingle roofing for pool house	15	\$ 15,519
Exterior doors for pool house	25	15,505
Pool resurface	2	16,216
Pool waterline tile	2	7,763
Wading/kiddie pool resurface	1	1,483
Wading/kiddie pool waterline tile	1	843
Concrete pool deck resurface	25	38,569
Pool equipment pumps and filters system	5	7,214
Pool house bathrooms, refurbish	12	15,911
Pool house, refurbish	18	36,596
Key fob system upgrades	8	5,759
Iron pool	20	33,818
Security system upgrade allowance	0	11,791
Pool house HVAC system	11	5,389
Irrigation system replacement allowance	3	19,062
Monument entry signage, cycle 1	10	15,136
Monument entry signage, cycle 2	20	38,859
Monument entry signage, cycle 3	30	49,883
Entrance landscaping/new signage	0	15,379
Asphalt paved parking areas; patch, seal and stripe	2	5,003
Asphalt paved parking areas; mill and overlay	12	11,718
Concrete walking path	10	2,972
<b>Total</b>		<b>\$ 370,388</b>