

SAGEGLEN COMMUNITY ASSOCIATION

FINANCIAL REPORT

DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Sageglen Community Association
Houston, Texas

We have audited the accompanying financial statements of Sageglen Community Association, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in fund balance and 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 these financial statement based on our audits. We conducted our audits 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sageglen Community Association as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of operating fund expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of 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 audits 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.

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Houston, Texas
October 30, 2013

SAGEGLEN COMMUNITY ASSOCIATION
BALANCE SHEETS
December 31, 2012 and 2011

	2012		2011	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
	Total	Total	Total	Total
ASSETS				
Cash, including interest-bearing deposits	\$ 244,032	\$ 318,481	\$ 562,513	\$ 512,881
Assessments receivable	13,481	-	13,481	29,777
Property and equipment:				
Land	26,333	-	26,333	26,333
Pool and tennis courts	351,990	-	351,990	351,990
Office building	101,362	-	101,362	101,362
Furniture and equipment	84,617	-	84,617	84,617
Less accumulated depreciation	564,302	-	564,302	564,302
	448,924	-	448,924	445,879
	115,378	-	115,378	118,423
Total assets	\$ 372,891	\$ 318,481	\$ 691,372	\$ 661,081
LIABILITIES AND FUND BALANCES				
Accounts payable	\$ 1,379	\$ -	\$ 1,379	\$ 2,104
Fund balances	371,512	318,481	689,993	658,977
Total liabilities and fund balances	\$ 372,891	\$ 318,481	\$ 691,372	\$ 661,081

See accompanying notes to financial statements and independent auditors' report.

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SAGEGLEN COMMUNITY ASSOCIATION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
Years Ended December 31, 2012 and 2011

	2012		2011	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
		Total		Total
REVENUES				
Regular assessments	\$ 363,891	\$ 363,891	\$ 360,390	\$ 360,390
Interest income	46	4,612	807	3,919
Other	87,975	87,975	95,136	95,136
451,912	4,566	456,478	456,333	3,112
425,462	-	425,462	410,435	-
-	-	-	-	-
EXPENSES				
Operating	26,450	31,016	45,898	3,112
Major repairs and replacements	445,062	658,977	399,164	210,803
	(100,000)	-	-	-
EXCESS OF REVENUES OVER EXPENSES				
	\$ 371,512	\$ 689,993	\$ 445,062	\$ 213,915
BEGINNING FUND BALANCES				
Transfer between funds				
ENDING FUND BALANCES				
	\$ 318,481	\$ 689,993	\$ 213,915	\$ 658,977

See accompanying notes to financial statements and independent auditors' report.

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SAGEGLEN COMMUNITY ASSOCIATION
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2012 and 2011

	2012		2011	
	Operating Fund	Replacement Fund	Operating Fund	Replacement Fund
	Total		Total	
OPERATIONAL CASH FLOWS:				
Net income (loss)	\$ 26,450	\$ 4,566	\$ 31,016	
Adjustments to reconcile net income to net cash provided by operations:				
Depreciation	3,045	-	3,045	3,296
Changes in current assets and liabilities:				
(Increase) decrease in receivables	16,296	-	16,296	-
Increase (decrease) in accounts payable and accrued expenses	(725)	-	(725)	-
Cash provided by (used in) operations	45,066	4,566	49,632	3,112
CASH FLOWS FROM INVESTING ACTIVITIES				
Capital expenditures	-	-	-	(520)
Net cash used in investing activities	-	-	-	(520)
INCREASE (DECREASE) IN CASH	45,066	4,566	49,632	3,112
CASH AND CASH EQUIVALENTS, beginning of period	298,966	213,915	512,881	210,803
CASH AND CASH EQUIVALENTS, end of period	<u>\$ 344,032</u>	<u>\$ 218,481</u>	<u>\$ 562,513</u>	<u>\$ 213,915</u>
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Interest	\$ 322	\$ -	\$ 322	\$ -
	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements and independent auditors' report.

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**SAGEGLEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

Note 1. Nature of Organization

Sageglen Community Association ("the Association") was incorporated on July 3, 1975, in the State of Texas. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of 1465 single family homes located in southeast Harris County, Texas.

Note 2. Date of Management's Review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 30, 2013, the date that the financial statements were available to be issued.

Note 3. Summary of Significant Accounting Policies

Fund Accounting:

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, 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.

Replacement Fund - This fund is used to accumulate financial resources designated for future major repairs and replacements.

Member Assessments:

Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are thirty days or more delinquent. The Association considers all assessments receivable at December 31, 2012 and 2011 to be fully collectible. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

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**SAGEGLEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

Note 3. Summary of Significant Accounting Policies (Continued)

Interest Income:

Interest income is allocated to the operating and replacement funds in proportion to the interest-bearing deposits of each fund.

Cash and Cash Equivalents:

For purposes of the statement of cash flows, the Association considers demand deposits in banks and short-term investments as cash and cash equivalents.

Property and Equipment:

Property and equipment acquired by the Association are recorded at cost and property contributed to the Association is recorded at estimated fair value at the date of contribution. Capitalized common property is depreciated over its estimated useful life using the straight-line method of depreciation.

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.

Note 4. Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. Sageglen Community Association is exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code and files Form 990.

As of December 31, 2012, the tax years that remain subject to examination by taxing authorities begin with 2009.

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**SAGEGLEN COMMUNITY ASSOCIATION
NOTES TO FINANCIAL STATEMENTS**

Note 5. Future Major Repairs and Replacements

In prior years, the Association had funded major repair and replacement expenditures from excess operating fund assessments as expenditures were incurred. The Association has adopted a program to begin designating funds for estimated future major repairs and replacements. Accumulated funds, which aggregate approximately \$214,000 and \$318,000 at December 31, 2012 and 2011, are held in separate accounts and are generally not available for operating expenses.

The Association has not conducted a study to estimate the estimated remaining useful lives and the replacement costs of the common property components. Amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

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SUPPLEMENTARY INFORMATION

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SAGEGLEN COMMUNITY ASSOCIATION
SCHEDULE OF OPERATING FUND EXPENSES
Years Ended December 31, 2012 and 2011

	2012		2011		
	Program Services	Management and General	Program Services	Management and General	Total
Payroll and related expenses	\$ 38,382	\$ 69,983	\$ 40,513	\$ 68,402	\$ 108,915
Utilities	83,523	-	91,694	-	91,694
Lawn maintenance	43,264	-	39,518	-	39,518
Repairs and maintenance	41,022	490	19,095	-	19,095
Legal and professional fees	40,250	-	48,548	-	48,548
Insurance	30,831	-	29,635	-	29,635
Bad debt expense	20,650	-	9,311	-	9,311
Community development expenses	17,050	-	30,272	-	30,272
Pool supplies	10,638	-	7,451	-	7,451
Postage and delivery	6,906	-	5,829	-	5,829
Printing and reproduction	4,501	-	6,152	-	6,152
Pest control	2,450	-	875	-	875
Office expenses	2,390	6,346	1,353	5,037	6,390
Information technology	2,008	-	1,870	-	1,870
Conferences, conventions and meetings	1,411	-	1,584	-	1,584
Interest expense	322	-	-	-	-
Depreciation	3,045	-	3,296	-	3,296
ENDING FUND BALANCES	\$ 348,643	\$ 76,819	\$ 336,996	\$ 73,439	\$ 410,435

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