

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS – MODIFIED CASH BASIS  
For the Year Ended December 31, 2021**

(With Report of Independent Auditor)

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REPORT OF INDEPENDENT AUDITOR

To the Board of Directors  
WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.

***Opinion***

We have audited the financial statements of Willow Wood Villas Owners Association, Inc. (Association), (a Texas nonprofit corporation), which comprise the statement of assets, liabilities and members' equity – modified cash basis as of December 31, 2021, and the related statements of revenue and expenses and changes in members' equity – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Willow Wood Villas Owners Association, Inc. as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity with the modified cash basis of accounting.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 opinion.

***Responsibilities of Management for the Financial statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 3; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 for twelve months.

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

Our objectives are to obtain reasonable assurance about whether the financial statements taken 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 is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risk 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 reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, 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.

### ***Basis of Accounting***

We draw attention to Note 3 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### ***Required Supplementary Information***

The financial statements do not contain supplementary information on future 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.

### ***Other Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenses – modified cash basis on pages 8-9 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 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.

*Kevin F. McKenna, P.C.*

Spring, Texas  
July 22, 2022

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**

Statement of Assets, Liabilities and  
Members' Equity - Modified Cash Basis  
December 31, 2021

**Assets**

Cash and cash equivalents:		
Operating checking	\$93,624	
Money market savings	<u>103,696</u>	
Total cash and cash equivalents		\$197,320
Investments - certificates of deposit		25,567
Land (at cost)		<u>38,704</u>
<b>Total Assets</b>		<b><u><u>\$261,591</u></u></b>

**Liabilities and Members' Equity**

**Liabilities**

Refundable deposits		<u>\$2,320</u>
<b>Total Liabilities</b>		2,320
<b>Members' Equity</b>		<u>259,271</u>
<b>Total Liabilities and Members' Equity</b>		<b><u><u>\$261,591</u></u></b>

See accompanying notes to financial statements.

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**

Statement of Revenue and Expenses  
and Changes in Members' Equity - Modified Cash Basis  
Year Ended December 31, 2021

***Revenue***

Member assessments	\$156,536
Insurance assessments	53,290
Late fees	475
Other revenue	1,015
Interest income	263
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***Total Revenue*** 211,579

***Expenses***

Maintenance and repair	29,643
Contract services	97,394
Utilities	33,586
General and administrative	4,918
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***Total Expenses*** 165,541

***Excess (deficiency) of revenue over expenses*** 46,038

*Members' Equity - Beginning of Year* 213,233

***Members' Equity - End of Year*** \$259,271

See accompanying notes to financial statements.

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**

Statement of Cash Flows - Modified Cash Basis  
Year Ended December 31, 2021

*Cash Flows From Operating Activities*

Cash collected for assessments and fees	\$210,301
Cash interest and dividends received	263
Other cash receipts related to operations	1,015
Cash paid for operating expenses	(165,541)
Interest paid on loans	
Income tax paid	
<b><i>Net Cash Provided (Used) By Operating Activities</i></b>	<u>46,038</u>

*Cash Flows From Investing Activities*

Investments matured	25,345
Investments renewed	(25,567)
<b><i>Net Cash Provided (Used) By Investing Activities</i></b>	<u>(222)</u>

*Cash Flows From Financing Activities*

Loan proceeds	
Loan repayments	
<b><i>Net Cash Provided (Used) By Financing Activities</i></b>	<u>0</u>

***Net Increase (Decrease) in Cash and Cash Equivalents*** 45,816

***Cash and Cash Equivalents***

<i>Beginning of year</i>	<u>151,504</u>
<b><i>End of Year</i></b>	<u><u>\$197,320</u></u>

***Reconciliation of excess (deficiency) of revenue over expenses to net cash provided (used) by operating activities***

Excess (deficiency) of revenue over expenses \$46,038

Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided (used) by operating activities:

<b><i>Net Cash Provided (Used) By Operating Activities</i></b>	<u>\$46,038</u>
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See accompanying notes to financial statements.

**NOTE 1 – Nature of Organization**

Willow Wood Villas Owners Association, Inc. is a Texas non-profit corporation that was incorporated February 8, 1993. The Association was formed to provide maintenance, preservation and architectural control of the 68 townhomes and common area located at 14020 Schroeder Road, Houston, Texas 77070. The responsibility for management of the affairs of the Association is vested with the Board of Directors.

**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 July 22, 2022, the date the financial statements were available to be issued.

**NOTE 3 – Summary of Significant Accounting Policies**

***Basis of Presentation*** - The Association’s policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Assets and liabilities are recorded and revenue and expenses are recognized on the cash basis, modified for capitalized land and refundable deposits; consequently, certain revenue is recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

***Use of Estimates*** - The preparation of financial statements in conformity with the modified cash basis of accounting may require management to make estimates and assumptions that affect the reported amounts and disclosure of contingent amounts in the Association’s financial statements and the accompanying notes. There are no significant estimates contained in the accompanying financial statements.

***Cash and Cash Equivalents*** – For purposes of the statement of cash flows – modified cash basis, cash and cash equivalents include all unrestricted cash balances, money market funds, certificates of deposit and highly liquid investments with original maturities of three months or less.

***Investments*** - Investments of the Association consist of certificates of deposit with maturity dates in excess of three months. The investments are stated at cost, which approximates fair value.

***Property and Equipment*** - Real property and common areas consist primarily of eighteen buildings, driveways, pool and landscape. In accordance with prevalent industry practice, common property and related improvements to such property are not capitalized in the Association’s financial statements because those properties are generally not subject to sale and are not used by the Association to generate significant revenues from members on the basis of usage, or from nonmembers. The Association has capitalized a 1.68 tract of land known as Reserve A that was purchased at a cost of \$38,704.00.

***Member Assessments*** - Association members are subject to monthly assessments to provide funds for its performance obligation of maintenance and upkeep of common property and administration of association affairs as defined in the Declaration of Covenants, Conditions and Restrictions. The performance obligation is satisfied on a continuous basis over current and future years. Any excess assessments at year end are retained by the Association for use in the succeeding year.

***Insurance Assessments*** – Association members are subject to monthly assessments to provide insurance coverage. The Association maintains a blanket policy and bills back each unit owner based on their respective square footage.



**NOTE 4 – Federal and State Taxes**

The Association qualifies as a homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is exempt from Federal income tax on income and expenses related to the acquisition, construction, management, maintenance, and care of Association property. Nonexempt income, such as interest, is reported on the Association's Federal income tax return form 1120H.

The Association's federal income tax returns are subject to examination by the Internal Revenue Service for three years after the returns are filed. The Association's federal income tax returns for 2019, 2020 and 2021 remain open to examination.

The Association has applied for and been granted exemption from Texas Franchise Tax under the provisions pertaining to homeowners' associations.

The Association is subject to Texas sales tax on taxable purchases of goods and services as defined in the Texas Tax Code.

**NOTE 5 – Future Major Repairs and Replacements**

The Association is responsible for preserving and maintaining the common property. The Association's governing documents do not require the accumulation of funds to finance future major repairs and replacements. The Association does not separately assess members for future major repairs and replacements.

The Association has not conducted a formal study to determine the remaining useful lives of the components of common property and estimates of the costs of major repairs and replacements that may be required in the future. The board of directors has not developed a formal plan to fund those needs; therefore, when funds are required for major repairs and replacements, the Association may, subject to member approval, increase regular assessments, levy special assessments, borrow or delay repairs and replacements until funds are available. The effect on future assessments has not been determined.

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**

Schedules of Expenses - Modified Cash Basis  
Year Ended December 31, 2021

***Maintenance and Repair***

Buildings	\$7,987
Electrical and lighting	1,019
Fences	3,000
Landscape and trees	4,973
Pest control	1,478
Plumbing	4,556
Pool repair and supply	1,719
Roof and gutters	800
Storm damage	4,111
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	29,643

***Contract Services***

Insurance	49,812
Landscape	18,376
Pool	3,897
Termite warranty	1,061
Property management	14,400
Trash	9,848
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	97,394

**WILLOW WOOD VILLAS  
OWNERS ASSOCIATION, INC.**  
Schedules of Expenses - Modified Cash Basis  
Year Ended December 31, 2021

***Utilities***

Electric	\$3,892
Water and sewer	<u>29,694</u>
	33,586

***General and Administrative***

Bank charges	211
Legal and accounting	2,410
Meetings	375
Miscellaneous	132
Office	407
Postage	326
Storage unit	408
Web site	<u>649</u>
	4,918