

POINT LOOKOUT HOMEOWNERS'
ASSOCIATION, INC.

FINANCIAL STATEMENTS

YEAR END DECEMBER 31, 2022

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

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ELAINE WELLS COMBS CPA**P O BOX 148****HUNGERFORD, TEXAS 77448****(281) 413 6593****elainecombs@earthlink.net****INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors
of Point Lookout Homeowners Association Inc.

Opinion

We have audited the accompanying financial statements of Point Lookout Homeowners Association Inc., which comprise the balance sheet as of December 31, 2022, 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 Point Lookout Homeowners Association Inc. as of December 31, 2022, 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 Point Lookout Homeowners Association Inc. 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 Point Lookout Homeowners Association Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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 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 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 Point Lookout Homeowners Association Inc.'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 Point Lookout Homeowners Association Inc.'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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on repairs and replacements be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, which 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.

Elaine Wells Combs

ELAINE WELLS COMBS, CPA

Hungerford, Texas

November 15, 2023

Notes:

APPENDIX 8A-1
(Continued)

POINT LOOKOUT HOMEOWNERS' ASSOCIATION INC.
STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY
December 31, 2022

ASSETS

Cash, including interest-bearing deposits	\$ 72,106
Accounts receivable	23,739
Common area land	25,990
Prepaid insurance	<u>6,581</u>
 TOTAL ASSETS	 \$ <u><u>128,416</u></u>

LIABILITIES AND MEMBERS' EQUITY

Accounts payable	\$ 847
Prepaid assessments	<u>103</u>
 TOTAL LIABILITIES	 950
 Members' equity	 <u>127,466</u>
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ <u><u>128,416</u></u>

See accompanying notes to financial statements.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN MEMBERS' EQUITY**

YEAR ENDED DECEMBER 31, 2022

REVENUES

Maintenance fees	\$	86,349
Interest income		64
Landscaping reimbursements		11,040
Pool pass income		4,820
Pool fund income		3,901
Gain on sale of asset		1,500
Transfer fees		7,800
Late fees and other		3,754
		<hr/>
TOTAL REVENUES		119,228
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EXPENSES

Accounting fees	3,113
Appraisal fees	2,500
Audit fees	4,000
Bulkhead repairs	23,171
Electricity	4,240
Electricity - pool	4,788
Fence repairs	1,022
General maintenance and repairs	1,467
Insurance	8,079
Internet service	1,088
Landscape maintenance	9,377
Legal fees	1,110
Management fees	6,275
Office expenses	4,511
Pool maintenance and repairs	10,160
Property taxes	1,668
Road repairs	2,016

See accompanying notes to financial statements.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION INC.

**STATEMENT OF REVENUES, EXPENSES AND
CHANGE IN MEMBERS' EQUITY**

YEAR ENDED DECEMBER 31, 2022

EXPENSES (continued)	
Sanitation	168
Telecomm	856
Water - pool	994
Water and sewer	1,032
Website	536
TOTAL EXPENSES	<u>92,171</u>
EXCESS OF (REVENUES OVER EXPENSES)	27,057
BEGINNING MEMBERS' EQUITY	101,022
PRIOR PERIOD ADJUSTMENT	<u>(613)</u>
ENDING MEMBERS' EQUITY	<u>\$ 127,466</u>

See accompanying notes to financial statements.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of revenues over expenses/(expenses over revenues)	\$ <u>27,059</u>
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Adjustments to reconcile excess of revenue over expenses/
(expenses over revenues) to net cash used by operating activities:

(Increase) decrease in:

Accounts receivable	383
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Prepaid insurance	(236)
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Increase (decrease) in:

Accounts payable	847
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Prepaid assessments	103
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Prior period adjustment	<u>(613)</u>
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NET CASH PROVIDED BY OPERATING ACTIVITIES	484
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NET INCREASE IN CASH AND CASH EQUIVALENTS	27,543
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>44,563</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 72,106</u></u>
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SUPPLEMENTAL DISCLOSURE

Income taxes paid	\$ -
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Interest paid	\$ -
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See accompanying notes to financial statements.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022

A. NATURE OF ORGANIZATION

Point Lookout Homeowners' Association, Inc., a Texas non-profit corporation was formed in March 1973. The purpose of the Association is to provide for maintenance and preservation of the properties subject to the Declaration of Covenants, Conditions and Restrictions applicable to the Association. The Association consists of 548.99 residential lots located in San Jacinto County, Texas.

B. DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition of disclosure through November 15, 2023, the date that the financial statements were available to be issued.

C. 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.

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when the obligations are incurred.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 unit owners. The Association's policy is to retain legal counsel and place liens on the properties of members whose assessments are thirty days or more delinquent. The Association considers all assessments receivable at December 31, 2022 to be fully collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Interest Income

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

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.

Property and Equipment

Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual owners in common and not by the Association. Fixed assets purchased by the Association are depreciated over their estimated useful lives.

Cash and Cash Equivalents

For purpose of the statement of cash flows, the Association considers unrestricted cash and highly liquid investments with maturities of three months or less at the date of purchase to be cash and cash equivalents.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations of credit risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist principally of member accounts receivable. The Association is subject to credit risk concentration since all of its members own property in the same geographical area.

Income Taxes

Homeowners' associations may be taxed either as homeowners' associations or as regular corporations. As a regular corporation, membership income is exempt from taxation if certain elections are made, (such as returning to homeowners' excess funds or reducing future assessments). Then the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal 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 qualifies as a tax-exempt homeowners' association under Internal Revenue Code Section 528. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of the Association property. Net nonexempt function income, which includes earned interest and revenues received from nonmembers, is taxed at 30% by the federal government.

For the year ended December 31, 2022, the Association elected to be taxed as a homeowners' association.

D. UNINSURED CASH BALANCES

The Federal Deposit Insurance Corporation (FDIC) is an independent agency of the United States government that protects the funds depositors place in banks and savings associations. FDIC insurance is backed by the full faith and credit of the United States government.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

D. UNINSURED CASH BALANCES (continued)

FDIC insurance covers all deposit accounts, including:

- Checking accounts
- Savings accounts
- Money market deposit accounts
- Certificates of deposit

- FDIC insurance does not cover other financial products and services that banks may offer, such as stocks, bonds, mutual funds, life insurance policies, annuities, or securities.
- The standard insurance amount is \$250,000 per depositor, per insured bank, for each account ownership category.
- At December 31, 2022, the Association had no uninsured balances.

E. FUTURE MAJOR REPAIRS AND REPLACEMENTS

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. 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 future assessments has not been determined at this time.

F. COMMITMENTS AND CONTINGENCIES

The Association routinely enters into various contracts with vendors for management and other services. All contracts generally have a one-year term and are cancelable with a 30-60-day notification by either party

From time to time, the Association may be subject to litigation in the ordinary course of business and seeks the advice from legal counsel to assist in estimation of the potential risk of loss. The Association did not experience any losses from litigation during the year ending December 31, 2022 and the board of directors is not aware of any significant litigation or claims outstanding as of that date.

POINT LOOKOUT HOMEOWNERS' ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2022

G. UNCERTAIN TAX POSITIONS

The Association's federal and state income tax returns are generally subject to examination by taxing authorities for three years after the returns are filed. The income tax returns for December 31, 2019, December 31, 2020, and December 31, 2021 remain open to examination.

H. FASB ASC 606 NEW ACCOUNTING GUIDANCE IMPLEMENTATION

The Financial Accounting Standards Board (FASB) issued a 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 FSBASC 972-605, Real Estate – Common Interest Realty Associations, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which a CIRA expects to be entitled in exchange for those goods or services.

The Association has applied ASC 605 revenue recognition whereby "rules based" specific guidance was defined for Common Interest Realty Associations (CIRAs) rather than ASC 606 which provides "principles based" broad standards that do not include specific guidance for CIRAs. Furthermore, Replacement Fund Assessments cannot apply the following four tests required under ASC 606:

- Assessments are not related to a "customer or customers"
- Assessments do not have a performance obligation
- There is no transaction price for replacement expenses
- Cannot allocate Assessments to a future performance obligation

As a result, I do not believe that the application of ASC 606 would fairly present the financial position to the CIRA financial readers.

I. SUBSEQUENT EVENTS

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