

**Village of Oak Lake
Homeowners Association, Inc.
(A Texas Non-Profit Corporation)**

Financial Statements

December 31, 2012

Canady & Canady P.C.
Certified Public Accountants
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Independent Auditor's Report

**The Board of Directors of
Village of Oak Lake Homeowners Association, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Village of Oak Lake Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2012, and related statements of revenues, expenses and changes in fund balances and cash flows for the year then ended.

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 statements based on our audit. We conducted our audit 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.

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Independent Auditor's Report (Continued)

**The Board of Directors of
Village of Oak Lake Homeowners Association, Inc.**

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village of Oak Lake Homeowners Association, Inc. as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 9 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.

Canady & Canady P.C.

Houston, Texas

May 28, 2013

Village of Oak Lake Homeowners Association, Inc.
Balance Sheet
December 31, 2012

Assets	Operating Fund	Replacement Fund	Total
Cash	\$ 175,654	\$ 527,604	\$ 703,258
Assessments receivable (net of allowance for doubtful acct of \$55,000)	58,060		58,060
Prepaid expenses	<u>5,665</u>		<u>5,665</u>
Total Assets	<u>\$ 239,379</u>	<u>\$ 527,604</u>	<u>\$ 766,983</u>
 Liabilities and Fund Balances			
Accounts payable	\$ 9,852	\$	\$ 9,852
Federal income taxes payable	88		88
Assessments paid in advance	<u>140,256</u>		<u>140,256</u>
	150,196		150,196
Fund balances	<u>89,183</u>	<u>527,604</u>	<u>616,787</u>
Total Liabilities and Fund Balances	<u>\$ 239,379</u>	<u>\$ 527,604</u>	<u>\$ 766,983</u>

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

Village of Oak Lake Homeowners Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balances
For the Year Ended December 31, 2012

	Operating Fund	Replacement Fund	Total
Revenues			
Assessments	\$ 177,680	\$ 250,000	\$ 427,680
Legal fees	26,288		26,288
HCMS collection fees	19,591		19,591
Other income	12,033		12,033
Interest	310	1,908	2,218
Total Revenues	235,902	251,908	487,810
Expenses			
Utilities	79,919		79,919
Pool	68,766	3,675	72,441
Landscape contract & improvements	68,580		68,580
Management fee	31,000		31,000
Legal fees	28,142		28,142
Irrigation system repairs	21,042		21,042
Bad debt	20,787		20,787
Insurance	18,846		18,846
Administrative	18,263		18,263
General repairs and maintenance	16,629		16,629
Collection expense	13,507		13,507
Lighting repair	8,453		8,453
Clubhouse		6,825	6,825
Activities	4,682		4,682
Newsletter	3,450		3,450
Lien expenses	2,113		2,113
Audit and tax return	1,870		1,870
Federal income taxes	88		88
Total Expenses	406,137	10,500	416,637
(Deficiency) excess of revenues over expenses	(170,235)	241,408	71,173
Fund balance- Beginning of year	259,326	286,288	545,614
Permanent fund transfer	92	(92)	
Fund balance- End of year	\$ 89,183	\$ 527,604	\$ 616,787

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

Village of Oak Lake Homeowners Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2012

	Operating Fund	Replacement Fund	Total
Cash flows from operating activities			
(Deficiency) excess of revenues over expenses	\$ (170,235)	\$ 241,408	\$ 71,173
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Decrease(increase) in:			
Assessments receivable	6,585		6,585
Prepaid expenses	(1,227)		(1,227)
(Decrease)increase in:			
Accounts payable	(17,668)		(17,668)
Federal income taxes payable	47		47
Assessments paid in advance	(20,856)		(20,856)
	<u> </u>	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	(203,354)	241,408	38,054
Net cash provided (used) by financing activities			
Permanent fund transfer	92	(92)	
	<u> </u>	<u> </u>	<u> </u>
Net (decrease) increase in cash and cash equivalents	(203,262)	241,316	38,054
Cash and cash equivalents, beginning of year	<u>378,916</u>	<u>286,288</u>	<u>665,204</u>
Cash and cash equivalents, end of year	<u>\$ 175,654</u>	<u>\$ 527,604</u>	<u>\$ 703,258</u>
Supplemental disclosure			
Income taxes paid	\$ 41	\$	\$ 41

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

Village of Oak Lake Homeowners Association, Inc.
Notes to Financial Statements
December 31, 2012

Note 1 - Organization

Village of Oak Lake Homeowners Association, Inc. (the Association) is a Texas non-profit corporation incorporated on February 1, 1985, for the purpose of providing for maintenance, preservation and architectural control of the properties that may be brought within the jurisdiction of the Association. The Association is comprised of 1,142 residential units in Fort Bend County, Texas.

Note 2 - Management's Review

In preparing the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through May 28, 2013, the date that the financial statements were available to be issued.

Note 3 - Summary of Significant Accounting Policies

Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit members. Any excess assessments at year end are retained by the Association for use in the succeeding year. Income received in advance is deferred and amortized over the period to which it relates.

Federal Income Tax

The Association is subject to federal income tax and must file an annual tax return. It has the option to file as a regular corporation, subject to general corporate tax provisions, or it can elect to file as a corporation pursuant to Internal Code Section 528. Under Section 528, the Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. This section imposes a flat 30% tax on the Associations' "non-exempt function" income which consists primarily of interest income. The Association evaluates both options and makes an annual election in order to minimize its income taxes. For year ended December 31, 2012, the current provision for income taxes is \$88.

The Association's tax filings are subject to audit by various taxing authorities. The Association's federal income tax returns for year 2012, 2011 and 2010 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.

Village of Oak Lake Homeowners Association, Inc.
Notes to Financial Statements
December 31, 2012

Note 3 - Summary of Significant Accounting Policies (continued)

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 unit owners in common and not by the Association.

Playground equipment purchased by the Association was being depreciated over their estimated useful lives using the straight-line method. The equipment is fully depreciated.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments

The Association's financial instruments are cash and cash equivalents. The recorded values of the cash and cash equivalents approximate their fair values based on their short-term nature.

Cash and Cash Equivalents

Certificates of deposits and all highly liquid financial instruments purchased with an initial maturity of three months or less is considered to be cash equivalents.

Note 4 - Assessments Receivable

Assessments receivable represents fees due prior to December 31, 2012. The Association's policy is to retain legal counsel to pursue collection matters when assessments become past due.

Note 5 - 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 6 - Uninsured Cash Balance

In 2008, the FDIC increased insurance up to \$250,000. The Association had approximately \$135,000 in excess of the insured limit at December 31, 2012.

Village of Oak Lake Homeowners Association, Inc.
Notes to Financial Statements
December 31, 2012

Note 7 - Future Major Repairs and Replacements

The Association's governing documents require funds to be accumulated for future major repairs and replacements. The board of directors approved funding of \$250,000 in 2012 for major repairs and replacements. As of December 31, 2012, \$527,604 is in the replacement fund. The Association conducted a study during November 2010 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding such repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed to meet future needs for major repairs and replacements, the Association has the right to increase regular assessments, pass special assessments, subject to member approval, or delay major repairs and replacements until funds are available. The effect on the future assessments has not been determined at this time.

Note 8 - Related Party

The administrator of the insurance program is an affiliate of the management company.

The Association has certain Association bank accounts and a banking relationship with First Associations Bank (FAB), a bank that is organized solely to meet the needs of community associations and their management companies. FAB was recently acquired by Pacific Premier Bancorp, Inc. (Pacific). The Association's management company is an "Associa Member Company". The CEO of Associa serves on the Board of Directors of Pacific and owns approximately 1.2% of the total shares.

The management company was performing general maintenance. The management company received approximately \$3,400 for such services during 2012.

An affiliate of the management company performed title work. The affiliate received approximately \$1,750 for such services during 2012.

Note 9- Subsequent Events

Upon evaluation, the Company 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.

Village of Oak Lake Homeowners Association, Inc.
Supplementary Information on Future Major Repairs
and Replacements
December 31, 2012
(Unaudited)

Reserve Advisors, Inc. consulting conducted a study in November 2010 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated future costs to repair or replace the common property components at the date of the study. Estimated future replacement costs include a 3.3% inflation rate.

The following table is based on the study and presents significant information about the components of common property.

Components	Estimated Remaining Useful Lives (Years)	Estimated Future Replacement Costs
Property site elements		
Playground equipment	8	\$ 516,114
Irrigation system	14	234,006
Tennis courts	0 – 4	200,496
Concrete flatwork	0	93,234
Monument, masonry	0	51,611
Other	0 – 15	60,676
Recreation center elements		
Exterior renovations	8	41,031
Interior renovations	8	43,408
Rest rooms, renovations	17	29,650
Roof assemblies	17	31,503
Split systems	15	20,839
Pool elements		
Plaster and tile	7	270,697
Mechanical equipment	11	99,817
Shade structure	0 – 13	67,406
Concrete deck	7	63,897
Fence	0	38,862
Pergolas	17	17,605
		<u>\$1,880,852</u>

The balance in the Replacement Fund at December 31, 2012, is \$527,604.