

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

Joseph H. Stoller

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Village of Oak Lake Homeowners Association, Inc.

We have audited the accompanying financial statements of Village of Oak Lake Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2014, and the related statements of revenues, expenses, and changes in members equity and cash flows for the year 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 statements based on our audits. 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 of 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 Village of Oak Lake Homeowners Association, Inc. as of December 31, 2014, 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.

Joe Stoller

Houston, Texas
June 29, 2015

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
Cash	\$ 225,032	\$ 442,190	\$ 667,222
Accounts receivable (less allowance for bad debt of \$100,000)	20,753	-	20,753
Prepaid expenses	<u>6,282</u>	<u>18,162</u>	<u>24,444</u>
TOTAL ASSETS	\$ <u>252,067</u>	\$ <u>460,352</u>	\$ <u>712,419</u>
 LIABILITIES			
Accounts payable	\$ 14,800	\$ -	\$ 14,800
Prepaid assessments	<u>169,382</u>	<u>-</u>	<u>169,382</u>
TOTAL LIABILITIES	184,182	-	184,182
MEMBERS' EQUITY	<u>67,885</u>	<u>460,352</u>	<u>528,237</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ <u>252,067</u>	\$ <u>460,352</u>	\$ <u>712,419</u>

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES

AND CHANGES IN MEMBERS' EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
REVENUES:			
Assessments	\$ 371,635	\$ 56,240	\$ 427,875
Interest income	428	1,452	1,880
Late fees and other	42,302	-	42,302
	<u>414,365</u>	<u>57,692</u>	<u>472,057</u>
TOTAL REVENUES			
EXPENSES:			
Bad debt	65,854	-	65,854
Capital improvements	-	20,889	20,889
Common area maintenance	14,583	-	14,583
Community events and newsletter	9,438	-	9,438
Insurance	20,269	-	20,269
Landscaping and irrigation	79,718	-	79,718
Legal and professional	49,164	-	49,164
Management fees	32,206	-	32,206
Operating expenses	11,650	-	11,650
Pool and recreation center	70,663	-	70,663
Property taxes	120	-	120
Utilities	92,131	-	92,131
	<u>445,796</u>	<u>20,889</u>	<u>466,685</u>
TOTAL EXPENSES			
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	(31,431)	36,803	5,372
BEGINNING MEMBERS' EQUITY-restated	<u>99,316</u>	<u>423,549</u>	<u>522,865</u>
ENDING MEMBERS' EQUITY	<u>\$ 67,885</u>	<u>\$ 460,352</u>	<u>\$ 528,237</u>

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess of revenues over expenses (expenses over revenues)	\$ (31,431)	\$ 36,803	\$ 5,372
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:			
(Increase) decrease in:			
Accounts receivable	337,807	-	337,807
Prepaid expenses	(989)	(18,162)	(19,151)
Increase (decrease) in:			
Accounts payable and accrued expenses	1,261	(61,431)	(60,170)
Prepaid assessments	(258,868)	-	(258,868)
Net cash provided by operating activities	<u>47,780</u>	<u>(42,790)</u>	<u>4,990</u>
Cash and cash equivalents at beginning of year	<u>177,252</u>	<u>484,980</u>	<u>662,232</u>
Cash and cash equivalents at end of year	<u>\$ 225,032</u>	<u>\$ 442,190</u>	<u>\$ 667,222</u>
SUPPLEMENTAL DISCLOSURE:			
Taxes paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest paid	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2014

A. ORGANIZATION

Village of Oak Lake Homeowners Association, Inc. ("the Association"), a Texas non-profit corporation, was formed in 1985. The Association is responsible for maintaining and preserving the common property through an owner elected board of directors. The Association consists of 1,142 lots located in Fort Bend County, Texas.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Date of management's review

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 29, 2015, the date that the financial statements were available to be issued.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Dues and assessments are recorded as revenue in the applicable year.

Property and Equipment

The Association has title to all common areas deeded from the developer; however, the Association cannot dispose of this property. Replacements and improvements to the common property are not capitalized but rather are charged to expense as incurred.

Use of estimates

The preparation of financial statements in conformity with U. S. 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 reported period. Actual results could differ from those estimates.

Determination of cash equivalents

The Association considers cash in operating accounts and short term certificates of deposit (defined as those with an original maturity date of three months or less) as cash and cash equivalents.

Fair value of financial instruments

The Association's financial instruments consist of cash and cash equivalents, certificate of deposits, receivables, and accounts payable and accrued expenses. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

B. 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 improvements, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from members. The Association's policy is to pursue collection from members whose assessments are past due. After all other reasonable collection efforts have been exhausted, the Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are delinquent. An allowance for doubtful accounts is maintained based on management's past experience in collecting its accounts and the Association's historical foreclosure experience. Any excess assessments at year end are retained by the Association for use in future years. The annual budget and assessments of members are determined by the Board of Directors.

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 units in the same geographical area.

Concentrations of membership

Most of the Association's business activities are with its members. The Association has a geographical concentration of its members.

Income Taxes

The Association recognizes and disclosed its tax positions in accordance with accounting standards, which requires the disclosure of uncertain tax positions and related penalties and interest recognized in the financial examination by a taxing authority. Accordingly, no related penalties or interest were recognized in the financial statements. Federal tax returns for the past three years are still subject to examination.

The Association may be taxed either as a homeowners' association or as a regular corporation. As a homeowners association, in accordance with Internal Revenue Service Code Section 528, the association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. The Association's investment income and non-exempt income, if any, would be subject to tax. For the year ended December 31, 2014, the Association elected to be taxed as a regular corporation.

As a regular corporation, the Association is allowed to carry over to future period's excess of expenses for the maintenance of the common property over membership source income, to offset future income from membership sources per Internal Revenue Service Code Section 277.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

C. 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. The Association entered a thirty month contract in December 2013 with an energy service provider. The contract expires in June 2015.

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 2014 and the Board of Directors is not aware of any significant litigation, claims, or major assessments outstanding as of December 31, 2014.

D. FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents state that funds may be accumulated for future major repairs and replacements. Accumulated funds are held in separate accounts and are generally not available for expenditures for normal operations. As of December 31, 2014, the Association had designated \$ 442,190 of cash funds.

The Association had an independent study conducted in 2010 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.

In 2014 the Association authorized an updated study and made a down payment to the firm engaged to perform the study which was completed in February 2015. The updated study was available prior to the audit completion and thus is used for the presentation of the supplementary information on page 9. The effect on future assessments has not been determined at this time. The table included in the unaudited supplementary information on future major repairs and replacements is based on the study.

E. PREPAID EXPENSES

Prepaid expenses in the operating fund at December 2014 consist of the unexpired, paid insurance premiums currently in effect and a service contract on which months remain. Prepaid expenses in the replacement fund consist of the down payment on the updated reserve study and a down payment on sidewalk and street improvements that were completed in February 2015.

F. PRIOR PERIOD ADJUSTMENT

The Association has restated accounts payable as of December 31, 2013 which resulted in a net increase in fund balance and net increase in the excess of revenues over expenses of \$ 7,437 for 2013.

G. JOINT FINANCING AGREEMENT

The Association entered into an agreement with the local MUD for expense sharing of the improvements needed to sidewalks within their mutual boundaries. The Association paid \$ 15,000 in 2014 from reserves and has budgeted \$ 15,000 for 2015 as participation in the agreement. The MUD is to contribute \$ 25,000 annually, oversee the project and provide reports to the Association.

SUPPLEMENTARY INFORMATION

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2014

An independent engineer conducted a study in February 2015 to estimate the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair and replace the common property components at the date of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated cost Repair/Replacement December 31, 2014</u>
Property elements	1 - 12	\$ 1,047,559
Clubhouse elements	5 - 30	164,012
Pool elements	2 - 18	422,483
Other	2	<u>2,500</u>
Total		<u>\$ 1,636,554</u>