

**VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015**

**Joseph H. Stoller CPA, LLC**

**CERTIFIED PUBLIC ACCOUNTANT**

**VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.**

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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, 2015, 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, 2015, 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.

***Joseph H. Stoller, CPA***

Houston, Texas  
August 3, 2016

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2015

|   | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>             |
|---|---------------------------|-----------------------------|--------------------------|
| Cash  | \$ 315,918                | \$ 159,998                  | \$ 475,916               |
| Certificates of deposit   | -                         | 175,620                     | 175,620                  |
| Accounts receivable (less<br>allowance for bad debt of \$100,000) | 16,611                    | -                           | 16,611                   |
| Prepaid expenses  | <u>7,875</u>              | <u>-</u>                    | <u>7,875</u>             |
| <b>TOTAL ASSETS</b>   | <b>\$ <u>340,404</u></b>  | <b>\$ <u>335,618</u></b>    | <b>\$ <u>676,022</u></b> |
| <br><b>LIABILITIES</b>  |                           |                             |                          |
| Accounts payable  | \$ 19,287                 | \$ 8,584                    | \$ 27,871                |
| Prepaid assessments   | <u>185,670</u>            | <u>-</u>                    | <u>185,670</u>           |
| <b>TOTAL LIABILITIES</b>  | <b>204,957</b>            | <b>8,584</b>                | <b>213,541</b>           |
| <b>MEMBERS' EQUITY</b>  | <b><u>135,447</u></b>     | <b><u>327,034</u></b>       | <b><u>462,481</u></b>    |
| <b>TOTAL LIABILITIES AND<br/>MEMBERS' EQUITY</b>                  | <b>\$ <u>340,404</u></b>  | <b>\$ <u>335,618</u></b>    | <b>\$ <u>676,022</u></b> |

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, 2015

|   | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>      |
|---|---------------------------|-----------------------------|-------------------|
| REVENUES:   |                           |                             |                   |
| Assessments   | \$ 455,200                | \$ 1,600                    | \$ 456,800        |
| Interest income   | 677                       | 1,504                       | 2,181             |
| Late fees and other   | 46,150                    | -                           | 46,150            |
| TOTAL REVENUES  | <u>502,027</u>            | <u>3,104</u>                | <u>505,131</u>    |
| EXPENSES:   |                           |                             |                   |
| Bad debt  | 11,369                    | -                           | 11,369            |
| Capital improvements  | -                         | 136,422                     | 136,422           |
| Common area maintenance   | 39,857                    | -                           | 39,857            |
| Community events and newsletter                                 | 11,300                    | -                           | 11,300            |
| Insurance   | 18,140                    | -                           | 18,140            |
| Landscaping and irrigation                                      | 111,083                   | -                           | 111,083           |
| Legal and professional  | 41,338                    | -                           | 41,338            |
| Management fees   | 32,212                    | -                           | 32,212            |
| Operating expenses  | 13,716                    | -                           | 13,716            |
| Pool and recreation center                                      | 67,735                    | -                           | 67,735            |
| Property taxes  | 152                       | -                           | 152               |
| Utilities   | 87,564                    | -                           | 87,564            |
| TOTAL EXPENSES  | <u>434,466</u>            | <u>136,422</u>              | <u>570,888</u>    |
| EXCESS OF REVENUES OVER<br>EXPENSES (EXPENSES OVER<br>REVENUES) | 67,561                    | (133,318)                   | (65,757)          |
| BEGINNING MEMBERS' EQUITY                                       | <u>67,886</u>             | <u>460,352</u>              | <u>528,238</u>    |
| ENDING MEMBERS' EQUITY  | <u>\$ 135,447</u>         | <u>\$ 327,034</u>           | <u>\$ 462,481</u> |

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

|  | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>      |
|--|---------------------------|-----------------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                           |                             |                   |
| Excess of revenues over expenses (expenses over revenues)  | \$ 67,561                 | \$ (133,318)                | \$ (65,757)       |
| Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities: |                           |                             |                   |
| (Increase) decrease in:  |                           |                             |                   |
| Accounts receivable  | 4,142                     | -                           | 4,142             |
| Prepaid expenses   | (1,593)                   | 18,162                      | 16,569            |
| Increase (decrease) in:  |                           |                             |                   |
| Accounts payable and accrued expenses  | 4,488                     | 8,584                       | 13,072            |
| Prepaid assessments  | 16,288                    | -                           | 16,288            |
| Net cash provided by operating activities  | <u>90,886</u>             | <u>(106,572)</u>            | <u>(15,686)</u>   |
| CASH FLOWS FROM INVESTING ACTIVITIES   |                           |                             |                   |
| Purchases of certificates of deposit   | <u>-</u>                  | <u>(175,620)</u>            | <u>(175,620)</u>  |
| NET CHANGE IN CASH   | 90,886                    | (282,192)                   | (191,306)         |
| Cash and cash equivalents at beginning of year   | <u>225,032</u>            | <u>442,190</u>              | <u>667,222</u>    |
| Cash and cash equivalents at end of year   | <u>\$ 315,918</u>         | <u>\$ 159,998</u>           | <u>\$ 475,916</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, 2015**

**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 August 3, 2016, 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, 2015**

**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, 2015, the Association elected to be taxed as a homeowners' association.

**VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2015**

**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.

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 2015 and the Board of Directors is not aware of any significant litigation, claims, or major assessments outstanding as of December 31, 2015.

**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, 2015, the Association had designated \$ 335,618 of cash and certificates of deposit for future major repairs and replacements.

The Association had an independent study conducted in 2015 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. The effect on future assessments has not been determined at this time. 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.

**E. PREPAID EXPENSES**

Prepaid expenses in the operating fund at December 2015 consist of the unexpired, paid insurance premiums currently in effect and a service contract on which months remain.

**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 from reserves in 2015 as participation in the agreement. The MUD is to contribute \$ 25,000 directly to the project 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, 2015**

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<br/>Remaining Useful<br/>Life (Years)</u> | <u>Estimated cost<br/>Repair/Replacement<br/>December 31, 2015</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>  |