

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

FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
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, 2016, 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.

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.

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, 2016, 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 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.

Cox CPA Services, Inc.

Cox CPA Services, Inc.
Houston, Texas
July 18, 2017

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 304,886	\$ 296,566	\$ 601,452
Certificates of deposit	90,360	-	90,360
Assessments receivable, net of an allowance for doubtful accounts of \$33,400	74,690	-	74,690
Prepaid expense	8,716	-	8,716
TOTAL CURRENT ASSETS	<u>478,652</u>	<u>296,566</u>	<u>775,218</u>
TOTAL ASSETS	<u>\$ 478,652</u>	<u>\$ 296,566</u>	<u>\$ 775,218</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities			
Accounts payable	\$ 17,150	\$ -	\$ 17,150
Prepaid assessments	184,112	-	184,112
TOTAL LIABILITIES	201,262	-	201,262
FUND BALANCES	<u>277,390</u>	<u>296,566</u>	<u>573,956</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 478,652</u>	<u>\$ 296,566</u>	<u>\$ 775,218</u>

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
REVENUES			
Regular assessments	\$ 429,640	\$ 50,000	\$ 479,640
Interest income	1,432	1,114	2,546
Bad debt recovery	49,581	-	49,581
Late fees and other	55,343	-	55,343
TOTAL REVENUES	<u>535,996</u>	<u>51,114</u>	<u>587,110</u>
EXPENSES			
Capital improvements	-	81,582	81,582
Community events and newsletter	5,551	-	5,551
Insurance	13,912	-	13,912
Landscaping and irrigation	90,355	-	90,355
Legal and professional fees	42,758	-	42,758
Management fees	34,605	-	34,605
Operating	15,812	-	15,812
Pool and recreation center	81,143	-	81,143
Property taxes	154	-	154
Repairs and maintenance	22,519	-	22,519
Utilities	87,244	-	87,244
TOTAL EXPENSES	<u>394,053</u>	<u>81,582</u>	<u>475,635</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	141,943	(30,468)	111,475
BEGINNING FUND BALANCES	<u>135,447</u>	<u>327,034</u>	<u>462,481</u>
ENDING FUND BALANCES	<u>\$ 277,390</u>	<u>\$ 296,566</u>	<u>\$ 573,956</u>

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess (deficit) of revenues over expenses	\$ 141,943	\$ (30,468)	\$ 111,475
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
(Increase) decrease in:			
Assessments receivable	(58,079)	-	(58,079)
Prepaid expense	(841)	-	(841)
Increase (decrease) in:			
Accounts payable	(2,137)	(8,584)	(10,721)
Prepaid assessments	(1,558)	-	(1,558)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>79,328</u>	<u>(39,052)</u>	<u>40,276</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Certificates of deposit	<u>(90,360)</u>	<u>175,620</u>	<u>85,260</u>
NET INCREASE (DECREASE) IN CASH	(11,032)	136,568	125,536
CASH AT BEGINNING OF YEAR	<u>315,918</u>	<u>159,998</u>	<u>475,916</u>
CASH AT END OF YEAR	<u>\$ 304,886</u>	<u>\$ 296,566</u>	<u>\$ 601,452</u>
SUPPLEMENTAL DISCLOSURE			
Income taxes paid	\$ -	\$ -	\$ -
Interest paid	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE A—NATURE OF ORGANIZATION

Village of Oak Lake Homeowners Association, Inc. was incorporated in the State of Texas in 1985. The Association is responsible for the operation and maintenance of the common property of the Village of Oak Lake, Houston, Texas. The Association consists of common areas such as a pool and parking areas. The community consists of 1,142 residential units and is located in the greater Houston, Texas area.

NOTE B—DATE OF MANAGEMENT’S REVIEW

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through July 18, 2017, the date that the financial statements were available to be issued.

NOTE 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.

Member Assessments

Association members are subject to 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 homeowners whose assessments are thirty days or more delinquent. Management analyzes the collectability of assessments receivable on a regular basis and allows for bad debt expense for those it feels are not collectible. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Cash and Cash Equivalents

The Association considers all short term investments with a maturity of three months or less to be cash equivalents.

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE C—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. The Association capitalizes personal property at cost and depreciates it using the straight-line method over the estimated useful life.

Prepaid Assessments

Prepaid assessments represent payments received from association members during the current year which relate to assessments for the subsequent year.

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.

Concentration of Credit Risk

The Association maintains a majority of its cash balances at one financial institution. Accounts at this institution are secured by the Federal Deposit Insurance Corporation up to \$250,000. There were no uninsured funds as of December 31, 2016.

NOTE E—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, 2016, the Association elected to be taxed as a homeowners' association.

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
December 31, 2016

NOTE F—FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$296,566 at December 31, 2016, are held in separate accounts and are generally not available for operating purposes.

The Association's board of directors conducted a study in 2015 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major 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 reserve fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to levy special assessments, or it may delay major repairs and replacements until funds are available.

SUPPLEMENTARY INFORMATION

VILLAGE OF OAK LAKE HOMEOWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS
AND REPLACEMENTS (UNAUDITED)
December 31, 2016

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 or 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.

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

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>
Property elements	0 - 11	1,047,559
Clubhouse elements	4 - 29	164,012
Pool elements	1 - 17	422,483
Other	1	2,500
Total		<u>\$ 1,636,554</u>