

**VILLAGE CREEK COMMUNITY  
ASSOCIATION, INC.**

**FINANCIAL STATEMENTS**

**AND**

**SUPPLEMENTARY INFORMATION**

**YEAR END DECEMBER 31, 2018**

**VILLAGE CREEK COMMUNITY  
ASSOCIATION, INC.**

**CONTENTS**

|   | <b><u>PAGE</u></b> |
|---|--------------------|
| INDEPENDENT AUDITOR'S REPORT  | 1                  |
| FINANCIAL STATEMENTS  |                    |
| Statement of assets, liabilities and members equity                               | 2                  |
| Statement of revenues and expenses<br>and changes in members equity               | 3 - 4              |
| Statement of cash flows   | 5 - 6              |
| Notes to financial statements   | 7 - 11             |
| SUPPLEMENTARY INFORMATION   |                    |
| Supplementary Information on Future Major Repairs<br>and Replacements (Unaudited) | 13                 |

# **ELAINE WELLS COMBS, CPA**

**P O BOX 148**

**HUNGERFORD, TEXAS 77448**

**(281) 970-5005**

**(713) 481-8448 FAX**

**elainecombs@earthlink.net**

## **INDEPENDENT AUDITOR'S REPORT**

To The Board of Directors  
of Village Creek Community Association, Inc.

### ***Report on the Financial Statements***

I have audited the accompanying financial statements of Village Creek Community Association, Inc., which comprise the statement of assets, liabilities and members' equity as of December 31, 2018, and the related statement of revenues and expenses and change in members' equity and cash flow 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***

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

***Opinion***

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Village Creek Community Association, Inc. as of December 31, 2018, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information is presented for the additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Association's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Elaine Wells Combs*

Elaine Wells Combs, CPA  
Hungerford, Texas

October 21, 2019

**VILLAGE CREEK COMMUNITY ASSOCIATION INC.**

**STATEMENT OF ASSETS, LIABILITIES AND MEMBERS EQUITY**

**December 31, 2018**

**ASSETS**

|   | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>             |
|---|---------------------------|-----------------------------|--------------------------|
| Cash  | \$ 250,156                | \$ 231,685                  | \$ 481,841               |
| Account receivable less<br>allowance for doubtful account<br>of \$ 14,410 | 45,838                    |                             | 45,838                   |
| Prepaid expenses  | 2,862                     |                             | 2,862                    |
| Prepaid insurance   | 15,071                    |                             | 15,071                   |
| <b>TOTAL ASSETS</b>   | <b>\$ <u>313,927</u></b>  | <b>\$ <u>231,685</u></b>    | <b>\$ <u>545,612</u></b> |

**LIABILITIES AND MEMBERS' EQUITY**

|  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| Accounts payable                                 | 31,667                   |                          | 31,667                   |
| Collections payable                              | 6,797                    |                          | 6,797                    |
| Construction deposits                            | 2,000                    |                          | 2,000                    |
| Prepaid assessments                              | 208,025                  |                          | 208,025                  |
| Note payable insurance                           | 8,266                    |                          | 8,266                    |
| <b>TOTAL LIABILITIES</b>                         | <b>256,755</b>           |                          | <b>256,755</b>           |
| Members' equity                                  | 57,172                   | 231,685                  | 288,857                  |
| <b>TOTAL LIABILITIES AND<br/>MEMBERS' EQUITY</b> | <b>\$ <u>313,927</u></b> | <b>\$ <u>231,685</u></b> | <b>\$ <u>545,612</u></b> |

See accompanying notes to financial statements.

**VILLAGE CREEK COMMUNITY ASSOCIATION INC.**

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

**YEAR ENDED DECEMBER 31, 2018**

|                              | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u> |
|------------------------------|---------------------------|-----------------------------|--------------|
| REVENUES                     |                           |                             |              |
| Owner assessments            | \$ 449,525                | \$ 65,905                   | \$ 515,430   |
| Interest income              |                           | 212                         | 212          |
| Late fees and other          | 3,469                     |                             | 3,469        |
| TOTAL REVENUES               | 452,994                   | 66,117                      | 519,111      |
| EXPENSES                     |                           |                             |              |
| Audit expense                | 4,200                     |                             | 4,200        |
| Bad debt expense             | 6,935                     |                             | 6,935        |
| Community events             | 11,590                    |                             | 11,590       |
| Holiday decorations          | 400                       |                             | 400          |
| Insurance                    | 16,718                    |                             | 16,718       |
| Interest expense             | 593                       |                             | 593          |
| Irrigation repairs           | 25,405                    |                             | 25,405       |
| Lake and fountain expenses   | 8,386                     |                             | 8,386        |
| Landscape expenses           | 210,230                   |                             | 210,230      |
| Legal expenses               | 2,366                     |                             | 2,366        |
| Maintenance and repairs      | 31,323                    | 1,894                       | 33,217       |
| Management contract          | 34,764                    |                             | 34,764       |
| Office expenses              | 15,349                    |                             | 15,349       |
| Pest control                 | 4,146                     |                             | 4,146        |
| Playground equipment         | 987                       | 22,615                      | 23,602       |
| Pool maintenance and repairs | 47,131                    | 7,074                       | 54,205       |
| Property taxes               | 3,618                     |                             | 3,618        |
| Signs                        | 1,071                     |                             | 1,071        |
| Tree maintenance             | 18,815                    |                             | 18,815       |
| Utilities                    | 123,846                   |                             | 123,846      |
| TOTAL EXPENSES               | 567,873                   | 31,583                      | 599,456      |

See accompanying notes to financial statements.

**VILLAGE CREEK COMMUNITY ASSOCIATION INC.**

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

**YEAR ENDED DECEMBER 31, 2018**

|                                       | <u>OPERATING<br/>FUND</u> | <u>REPLACEMENT<br/>FUND</u> | <u>TOTAL</u>      |
|---------------------------------------|---------------------------|-----------------------------|-------------------|
| EXCESS OF (REVENUES<br>OVER EXPENSES) | (114,879)                 | 34,534                      | (80,345)          |
| BEGINNING MEMBERS' EQUITY             | <u>172,051</u>            | <u>197,151</u>              | <u>369,202</u>    |
| ENDING MEMBERS' EQUITY                | <u>\$ 57,172</u>          | <u>\$ 231,685</u>           | <u>\$ 288,857</u> |

See accompanying notes to financial statements.

# VILLAGE CREEK COMMUNITY ASSOCIATION ASSOCIATION, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2018

|  | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u> |
|--|---------------------------|-----------------------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES   |                           |                             |              |
| Excess (deficiency) of revenues over expenses  | \$ (114,879)              | \$ 34,534                   | \$ (80,345)  |
| Adjustments to reconcile excess (deficiency)<br>of revenues over expenses to net cash provided<br>by operating activities: |                           |                             |              |
| (Increase) decrease in:  |                           |                             |              |
| Account receivable   | (10,971)                  |                             | (10,971)     |
| Prepaid expenses   | (2,862)                   |                             | (2,862)      |
| Prepaid insurance  | (2,835)                   |                             | (2,835)      |
| Increase (decrease) in:  |                           |                             |              |
| Accounts payable   | 8,841                     |                             | 8,841        |
| Collection payables  | 6,797                     |                             | 6,797        |
| Prepaid assessments  | 67,484                    |                             | 67,484       |
| NET CASH PROVIDED BY<br>OPERATING ACTIVITIES   | 66,454                    |                             | 66,454       |
| Cash flows from financing activities:  |                           |                             |              |
| Insurance payable  | 8,266                     |                             | 8,266        |
| Net cash provided by financing activities  | 8,266                     |                             | 8,266        |
| NET INCREASE (DECREASE) IN CASH  | (40,159)                  | 34,534                      | (5,625)      |

See accompanying notes to financial statements.



**VILLAGE CREEK COMMUNITY ASSOCIATION ASSOCIATION, INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2018**

|                           | <u>Operating<br/>Fund</u> | <u>Replacement<br/>Fund</u> | <u>Total</u>      |
|---------------------------|---------------------------|-----------------------------|-------------------|
| CASH AT BEGINNING OF YEAR | <u>290,315</u>            | <u>197,151</u>              | <u>487,466</u>    |
| CASH AT END OF YEAR       | <u>\$ 250,156</u>         | <u>\$ 231,685</u>           | <u>\$ 481,841</u> |
| SUPPLEMENTAL DISCLOSURE   |                           |                             |                   |
| Income taxes paid         | \$ -                      | \$ -                        | \$ -              |
| Interest paid             | \$ 593                    | \$ -                        | \$ 593            |

See accompanying notes to financial statements.

**VILLAGE CREEK COMMUNITY ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**A. NATURE OF ORGANIZATION**

Village Creek Community Association, Inc., a Texas non-profit corporation was formed in March 29, 1999. 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 747 residential lots located in Harris County, Texas as of December 31, 2018.

**B. DATE OF MANAGEMENT'S REVIEW**

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition of disclosure through October 21, 2019 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.

**VILLAGE CREEK COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**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 uses the allowance method to account for uncollectible assessments at year end.

Any excess assessments at year end are retained by the Association for use in the succeeding year. Pre-payments of subsequent year assessments are recorded as a liability. As of December 31, 2018, there is \$ 45,838 in outstanding account receivables, net of \$14,410 allowance for doubtful accounts.

**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.

**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. As of December 31, 2018, the Association does not have any certificates of deposit on hand.

**VILLAGE CREEK COMMUNITY ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**C. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value of financial instruments**

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

**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.

**Income Taxes**

The Association is exempt from federal income taxes under Internal Revenue Code Section 501 (c)(4). Tax exempt status is based upon the Association operating as a social welfare organization and promoting the common good and general welfare of the community and general public. For the year ending December 31, 2018, the Association filed a Form 990 Return of Organization Exempt from Income Tax.

**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.

**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.

**VILLAGE CREEK COMMUNITY ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**D. UNINSURED CASH BALANCES (continued)**

FDIC insurance covers all deposit accounts, including:

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

The Association had no uninsured balances in interest bearing accounts at December 31, 2018.

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.

**E. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Association governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds which aggregate approximately \$ 231,685 at December 31, 2018, are held in separate accounts and are generally not available for operating purposes.

The funding program was based on a study performed by the board of directors to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding 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 replacement 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 increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

**VILLAGE CREEK COMMUNITY ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**DECEMBER 31, 2018**

**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, 2018 and the board of directors is not aware of any significant litigation or claims outstanding as of that date.

**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, 2015, December 31, 2016 and December 31, 2017 remain open to examination.

**H. PRIOR MANAGEMENT COMPANY**

During 2018, the Association changed management companies as a result of the inadequate landscaping approval process. It was noted that there were several discrepancies with regard to invoices for work performed by the landscaping contractor that appeared to not have gone through the usual approval process.

Once these procedures were noted by the board, a list of Board unapproved invoices was calculated in the amount of approximately \$ 49,416 in improperly approved invoices by the management company without notification and approval of the board. The board at the time was Gordon Watson, Ty Thomas, Greg Smith, Cynthia Moody and Brian Martin. An attorney was subsequently contacted in order to obtain a legal opinion with regard to collectability and it was determined at the time the best resolution was to cancel the management contract due to poor performance or lack of performance. Fraudulent activity on the part of the management company or the landscaping company at the time could not be determined.

## **SUPPLEMENTARY INFORMATION**

VILLAGE CREEK COMMUNITY ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS  
 AND REPLACEMENTS (UNAUDITED)  
 DECEMBER 31, 2018

The Association's board of directors conducted a study 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.

| Components                | Estimated Remaining Useful Life (Years) | Estimated Replacement Cost |
|---------------------------|---|----------------------------|
| Basketball court          | 18                                      | \$ 25,000                  |
| Concrete                  | 5-30                                    | 840,600                    |
| Fences                    | 8                                       | 10,120                     |
| Irrigation System         | 23-24                                   | 187,650                    |
| Pergolas                  | 8                                       | 7,000                      |
| Playground Equipment      | 8-18                                    | 57,000                     |
| Pond                      | 9-15                                    | 28,625                     |
| Signage                   | 3                                       | 12,000                     |
| Site furniture            | 3                                       | 23,000                     |
| Pool House Restrooms      | 18                                      | 18,000                     |
| Pool House Roofs          | 13                                      | 22,500                     |
| Pool House Walls          | 5                                       | 8,300                      |
| Pool House Windows/Doors  | 18                                      | 7,650                      |
| Pool Concrete Deck        | 2-10                                    | 37,000                     |
| Pool Fence                | 13                                      | 34,420                     |
| Pool Furniture            | 10                                      | 8,000                      |
| Pool Mechanical Equipment | 2-9                                     | 40,000                     |
| Pool replaster            | 12                                      | 61,000                     |
| Pool Shade Structures     | 2-8                                     | 28,500                     |
| Pool Water Features       | 2                                       | 50,000                     |
| Various Other Expenses    | 1                                       | 2,100                      |
| Reserve study update      | 2                                       |                            |
|                           |   |                            |
|                           |   | \$ 1,548,775               |