

Cavanaugh & Company, PLLC

Certified Public Accountants

MEMBERS OF
American Institute of CPAs
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Independent Auditors' Report

Board of Directors
Oak Creek Owners Association, Inc.
Arlington, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the Oak Creek Owners Association, Inc., which comprise the Balance Sheets as of December 31, 2013 and 2012, and the related Statements of Income, Members' Equity and Cash Flows for the years 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditors' 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, well as evaluating the overall financial statement presentation.

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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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Oak Creek Owners Association, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years 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 11 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 inquires of management about the methods of preparing the information for consistency with management's responses to our inquires, 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.

June 23, 2014

Cavanaugh & Company, P.A.C.

OAK CREEK OWNERS ASSOCIATION, INC.
BALANCE SHEETS
DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 118,031	\$ 78,555
Assessments Receivable - Net	1,623	4,595
Account Receivable - Other	139	-
Prepaid Insurance	5,242	6,649
Furniture & Equipment - Net	<u>3,662</u>	<u>2,705</u>
 Total Assets	 <u>\$ 128,697</u>	 <u>\$ 92,504</u>

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	\$ 19,515	\$ 11,003
Income Tax Payable	1,221	-
Prepaid Assessments	<u>6,751</u>	<u>10,416</u>
Total Liabilities	<u>\$ 27,487</u>	<u>\$ 21,419</u>
 Replacement Reserves	 \$ 91,801	 \$ 66,141
Unappropriated Members' Equity	<u>9,409</u>	<u>4,944</u>
Total Members' Equity	<u>\$ 101,210</u>	<u>\$ 71,085</u>
 Total Liabilities and Members' Equity	 <u>\$ 128,697</u>	 <u>\$ 92,504</u>

See Accompanying Notes to Financial Statements

OAK CREEK OWNERS ASSOCIATION, INC.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
<u>INCOME:</u>		
Assessments	\$ 297,732	\$ 286,992
Late Fees & Collections	5,531	6,578
Fines	1,430	1,150
Rental	1,500	226
Cable	233	-
Interest	109	33
Other	871	793
Total Income	\$ 307,406	\$ 295,772
<u>EXPENSES:</u>		
Management	\$ 19,200	\$ 15,195
Legal, Audit & Tax Preparation	8,424	4,998
Reserve Study	-	3,300
Insurance	36,900	32,722
Interest	857	844
Bad Debts	-	18,374
Assessments on Foreclosed Units	3,413	1,892
Collections	2,601	5,718
Administrative	5,913	7,520
Pool	10,382	14,161
Landscaping	19,054	23,233
Repairs & Maintenance	50,774	66,908
Painting	48,031	-
Caulking Project	-	22,125
Trash Removal	10,212	9,357
Water	50,539	54,604
Electricity	17,343	17,173
Telephone	2,271	2,251
Depreciation	696	525
Income Tax	1,221	-
Total Expenses	\$ 287,831	\$ 300,900
Net Income Before Contribution to Reserves	\$ 19,575	\$ (5,128)
Contribution to Reserves	(15,109)	(16,535)
Net Income (Loss)	\$ 4,466	\$ (21,663)

See Accompanying Notes to Financial Statements

OAK CREEK OWNERS ASSOCIATION, INC.
STATEMENTS OF MEMBERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>Replacement Reserves</u>	<u>Unappropriated Members' Equity</u>	<u>Total Members' Equity</u>
Balance as of December 31, 2011	\$ 43,667	\$ 26,607	\$ 70,274
Additions:			
Contribution to Reserves	16,535		16,535
Insurance Proceeds	311,030		311,030
Deductions:			
Roofs	(304,796)		(304,796)
Bank Fees	(295)		(295)
Net Loss		(21,663)	(21,663)
Balance as of December 31, 2012	\$ 66,141	\$ 4,944	\$ 71,085
Additions:			
Contribution to Reserves	15,109		15,109
Cable Marketing Agreement	10,800		10,800
Net Income		4,465	4,465
Deduction:			
Bank Fees	(249)		(249)
Balance as of December 31, 2013	<u>\$ 91,801</u>	<u>\$ 9,409</u>	<u>\$ 101,210</u>

See Accompanying Notes to Financial Statements

OAK CREEK OWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income (Loss)	\$ 4,465	\$ (21,663)
Adjustments to Reconcile Net Income (Loss) to Net Cash Flows from Operating Activities:		
Depreciation	696	525
Bad Debts Provision less Write-Offs	(4,833)	(5,167)
Decrease (Increase) in:		
Assessments Receivable	7,805	27,816
Account Receivable - Other	(139)	-
Prepaid Insurance	1,407	(5,171)
Increase (Decrease) in:		
Accounts Payable	8,512	(2,344)
Income Tax Payable	1,221	-
Prepaid Assessments	(3,665)	3,569
Net Cash Flows From Operating Activities	<u>\$ 15,469</u>	<u>\$ (2,435)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Proceed from Insurance Claim	\$ -	\$ 311,030
Received from Assessments (Reserves)	15,000	16,500
Received from Interest (Reserves)	109	35
Cable Marketing Agreement	10,800	-
Disbursed for Reserve Expenditures	(249)	(305,091)
Purchase for Furniture & Equipment	(1,653)	(3,230)
Net Cash Flows From Investing Activities	<u>\$ 24,007</u>	<u>\$ 19,244</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Proceeds for Insurance Notes	\$ 25,204	\$ 26,276
Repayments on Insurance Notes	(25,204)	(26,276)
Net Cash Flows From Financing Activities	<u>\$ -</u>	<u>\$ -</u>
Net Change in Cash and Cash Equivalents	\$ 39,476	\$ 16,809
Cash and Cash Equivalents at Beginning of Year	<u>78,555</u>	<u>61,746</u>
Cash and Cash Equivalents at End of Year	<u>\$ 118,031</u>	<u>\$ 78,555</u>
<u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</u>		
Cash Paid for Interest	<u>\$ 857</u>	<u>\$ 844</u>

See Accompanying Notes to Financial Statements

OAK CREEK OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the State of Texas as a non-profit corporation for the purposes of maintaining and preserving the common property of the association. The Association is located in Arlington, Texas and consists of 108 units. The Association's Board of Directors administers the association operations.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses when incurred, not necessarily when received or paid.

B) 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 homeowners. The Association has lien rights against each home until all dues and assessments are paid, such lien rights being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings. Any excess assessments at year-end are retained by the Association for use in future years.

C) Common Property - Real property and common areas acquired from the Declarant 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. Common property includes, but is not limited to, the exterior structures, improvements and recreational facilities.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the 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.

E) Cash Equivalents - For purposes of the statement of cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

OAKS CREEK OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by an engineer in November 2012 and utilizes the cash flow method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. For 2013 and 2012, the Association contributed \$15,000 and \$16,500, respectively, from assessment to replacement reserves. Additionally, the Association contributed \$109 and \$35 of interest earnings to the replacement reserves in 2013 and 2012, respectively.

Funds are being accumulated in replacement reserves based on estimates of future needs for repair and replacement of common property components. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association may increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available.

As of December 31, 2013 and 2012, the Association had designated \$91,801 \$66,141 for replacement reserves. These designated reserves were funded by cash and cash equivalents.

NOTE 4 - INSURANCE CLAIM/ROOFS:

The Association incurred hail damages to its roofs in 2012. The Association was covered by insurance for these damages. The Association received insurance proceeds of \$311,030 and expended \$304,796 on roof repairs.

NOTE 5 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, the Association's net assessment income would be exempt from income tax, but its interest income would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2013, the Association's income taxes were calculated under the corporate method. For 2012, the Association's income taxes were calculated using the exempt method.

OAK CREEK OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 6 - CASH AND CASH EQUIVALENTS:

As of December 31, 2013, the Association maintained its funds in the following manner:

<u>Institution</u>	<u>Type Account</u>	<u>Cash and Cash Equivalents</u>
Union	Checking	\$ 26,230
Union	Money Market	<u>91,801</u>
	Total	<u>\$ 118,031</u>

NOTE 7 - ASSESSMENTS RECEIVABLE - NET:

The Association utilizes the allowance method of accounting for bad debt. Individual receivables are written off as a loss when a determination is made that they are non-collectible. Under the allowance method, collection efforts may continue and recoveries of amounts previously written off are recognized as income in the year of collection.

	<u>2013</u>	<u>2012</u>
Assessments Receivable	\$ 1,623	\$ 9,428
Less: Allowance for Doubtful Assessments	<u>(-)</u>	<u>(4,833)</u>
Assessments Receivable - Net	<u>\$ 1,623</u>	<u>\$ 4,595</u>

NOTE 8 - FURNITURE & EQUIPMENT - NET:

Furniture and equipment is being depreciated over an estimated useful life of five years using the straight-line method. The depreciation expense for 2013 was \$696.

	<u>2013</u>	<u>2012</u>
Security Equipment	\$ 3,530	\$ 3,230
Furniture	1,353	-
Less: Accumulated Depreciation	<u>(1,221)</u>	<u>(525)</u>
Furniture & Equipment - Net	<u>\$ 3,662</u>	<u>\$ 2,705</u>

NOTE 9 - INSURANCE NOTE:

The Association finances a portion of its insurance premium each year. In 2013, the Association financed \$25,204 at 7.35% over ten months. In 2012, the Association financed \$26,276 at 6.95% over ten months. The balances were paid in full as of December 31, 2013 and 2012.

OAK CREEK OWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(CONTINUED)

NOTE 10 - RELATED PARTY TRANSACTIONS:

The Association retained Veracity, Inc. as its management agent. During 2013 and 2012, Veracity, Inc. performed repair and maintenance work in the amount of \$23,503 and \$29,748, respectively. As of December 31, 2013 and 2012, the Association owed \$1,550 and \$228, respectively, for repair and maintenance work to Veracity, Inc.

A member of the Board of Directors performs porter services for the Association. In the 2013, the Association paid \$3,439 related to these services, of which \$269 was owed as of December 31, 2013.

NOTE 11 - CABLE & INTERNET SERVICE/MARKETING AGREEMENT:

In 2013, the Association entered into an agreement with Time Warner Cable for service and marketing of cable, internet and other services. The Association received a one-time payment of \$10,800 and started to receive revenue share payments based on usage by its members.

NOTE 12 - SUBSEQUENT EVENTS:

In preparing these financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 23, 2014, the date which the financial statements were available to be issued.

OAK CREEK OWNERS ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2013
(UNAUDITED)

The Association had a replacement reserve study conducted by an engineer during November 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the cash flow method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. The study assumes a rate of inflation of 3% and a rate of return on invested reserve funds of 2%.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

<u>Components</u>	<u>2012 Estimated Remaining Useful Life (Years)</u>	<u>2012 Estimated Replacement Cost</u>
Site	1 - 22	\$ 608,545
Building Exterior	1 - 24	821,307
Building Interior	6 - 12	26,438
Mechanical	2 - 11	41,175
Amenities	2 - 22	57,242