

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION

TABLE OF CONTENTS

DECEMBER 31, 2013

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
BALANCE SHEET	3
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE	4
STATEMENT OF CASH FLOWS	5
FOOTNOTES TO THE FINANCIAL STATEMENTS	6 - 9

DeVOLT AND COMPANY, P.C.

P. O. BOX 803367
DALLAS, TEXAS 75380-3367
(972) 980-4315
FAX (972) 702-0174

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Villages of Indian Creek Owners Association
Carrollton, Texas

We have audited the accompanying financial statements of The Villages of Indian Creek Owners Association, which comprise the Balance Sheet as of December 31, 2013, 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.

Auditors' 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 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 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 The Villages of Indian Creek Owners Association as of December 31, 2013, 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.

Report On Supplementary Information

Management has omitted the information on future major repairs and replacements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Very truly yours,

DeVult and Company, P.C.

DeVult and Company, P.C.
Certified Public Accountants
October 3, 2014

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2013

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash, including interest-bearing deposits	\$ 7,896	\$ 20,378	\$ 28,274
Assessments receivable, less allowance for doubtful accounts of \$ 4,200	5,441		5,441
Accounts receivable - other	171		171
Prepaid insurance	2,164		2,164
TOTAL CURRENT ASSETS	<u>15,672</u>	<u>20,378</u>	<u>36,050</u>
PROPERTY AND EQUIPMENT, AT COST			
Tools & equipment	55,063		55,063
Less: accumulated depreciation	<u>(16,801)</u>		<u>(16,801)</u>
PROPERTY AND EQUIPMENT, NET	<u>38,262</u>	-	<u>38,262</u>
TOTAL ASSETS	<u>\$ 53,934</u>	<u>\$ 20,378</u>	<u>\$ 74,312</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 813	\$	\$ 813
Assessments received in advance	7,556		7,556
Note payable - current portion	9,933		9,933
TOTAL CURRENT LIABILITIES	<u>18,302</u>	-	<u>18,302</u>
OTHER LIABILITIES			
Note payable (less current portion)	22,067		22,067
Miscellaneous			
TOTAL OTHER LIABILITIES	<u>22,067</u>	-	<u>22,067</u>
TOTAL LIABILITIES	<u>40,369</u>	-	<u>40,369</u>
FUND BALANCES / (DEFICITS)	<u>13,565</u>	<u>20,378</u>	<u>33,943</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 53,934</u>	<u>\$ 20,378</u>	<u>\$ 74,312</u>

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2013

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 41,976	\$	\$ 41,976
Miscellaneous income	4,021		4,021
Late/collection charges	1,250		1,250
Interest income	11	31	42
TOTAL REVENUES	<u>47,258</u>	<u>31</u>	<u>47,289</u>
OPERATING EXPENSES			
Landscaping & lawn maintenance	10,588		10,588
Management fees	7,200		7,200
Dues discounts/bad debt expense	5,849		5,849
Office supplies & admin. costs	5,429		5,429
Utilities expense	2,937		2,937
Insurance expense	2,581		2,581
Legal & professional fees	1,713		1,713
Pest control	1,013		1,013
Repairs - sprinklers	989		989
Depreciation expense	913		913
Repairs - other	766		766
TOTAL OPERATING EXPENSES	<u>39,978</u>	-	<u>39,978</u>
EXCESS REVENUES / (EXPENSES)			
FROM OPERATIONS	<u>\$ 7,280</u>	<u>\$ 31</u>	<u>\$ 7,311</u>
EXCESS REVENUES / (EXPENSES)	<u>\$ 7,280</u>	<u>\$ 31</u>	<u>\$ 7,311</u>
BEGINNING FUND BALANCE / (DEFICIT)	6,285	20,347	26,632
ENDING FUND BALANCE / (DEFICIT)	<u>\$ 13,565</u>	<u>\$ 20,378</u>	<u>\$ 33,943</u>

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Excess revenues/ (expenses)	\$ 7,280	\$ 31	\$ 7,311
Add: Depreciation	913	-	913
Decrease / (Increase) in:			
Accounts receivable	(999)	-	(999)
Accounts receivable - other	(171)	-	(171)
Prepaid expenses	(63)	-	(63)
Accum. depreciation from retired fixed assets	(13,009)	-	(13,009)
Increase / (Decrease) in:			
Accounts payable	(950)	-	(950)
Prepaid assessments	2,237	-	2,237
NET CASH PROVIDED/ (USED) BY OPERATIONS	<u>(4,762)</u>	<u>31</u>	<u>(4,731)</u>
CASH FLOW FROM INVESTING ACTIVITIES:			
Retirement / (Purchase) of property and equipment	(25,698)	-	(25,698)
NET CASH PROVIDED/ (USED) BY INVESTING	<u>(25,698)</u>	<u>-</u>	<u>(25,698)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Increase / (Decrease) in:			
Notes payable	32,000	-	32,000
NET CASH PROVIDED/ (USED) BY FINANCING	<u>32,000</u>	<u>-</u>	<u>32,000</u>
NET INCREASE/ (DECREASE) IN CASH	<u>1,540</u>	<u>31</u>	<u>1,571</u>
CASH BALANCE, DECEMBER 31, 2012	6,356	20,347	26,703
CASH BALANCE, DECEMBER 31, 2013	<u>\$ 7,896</u>	<u>\$ 20,378</u>	<u>\$ 28,274</u>
SUPPLEMENTAL DISCLOSURE:			
Cash paid during the year for:			
Federal Income Tax	\$ -	\$ -	\$ -
Interest Expense	\$ -	\$ -	\$ -

See the accompanying Independent Auditors' Report
and the Footnotes to the Financial Statements.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

FOOTNOTE 1: The Villages of Indian Creek Owners Association is a Texas corporation formed October 8, 1985. The purpose of the Association is to operate and maintain The Villages of Indian Creek homeowners project. The project consists of 159 built lots and related common areas located in Carrollton, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 3, 2014, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for The Villages of Indian Creek Owners Association are maintained on the accrual basis of accounting.

FUND ACCOUNTING: The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction 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.

CASH AND CASH EQUIVALENTS: For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

REVENUES: Revenues are accrued each quarter as the member assessments become due. Both the rate for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

EXPENDITURES: Expenses for book purposes are recognized when the work is done and the expense is incurred, regardless of when it is paid. Unbudgeted, non-emergency repairs must be approved by a member of the Board. All large expenditures, projects and services are contracted using competitive bidding policies. The Board of Directors has the final approval on all contracts.

See the accompanying Independent Auditors' Report.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

FOOTNOTE 3: (CONTINUED):

ACCOUNTS RECEIVABLE: 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 ninety days or more delinquent. The Association has a lien right against each unit until all dues or assessments are paid, such liens 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 the succeeding year.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economic conditions. At December 31, 2013, the allowance for doubtful accounts of \$ 4,200 represents approximately 43.56 % of the total accounts receivable and approximately 51 % of the outstanding amounts in excess of ninety days old.

PROPERTY AND EQUIPMENT: The Association assumed, from the developer, the responsibility to maintain and preserve the common areas of the project. 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 the Association cannot dispose of this property. The Association capitalizes personal property, if any, at cost and depreciates it using the straight-line method, over applicable useful lives of five years. Depreciation expense for the year was \$ 913.

FEDERAL INCOME TAX: The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners Associations (Section 528) or Sub-Chapter A, dealing with corporations in general. Section 528 would impose a tax rate of 30% to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Sub-Chapter A imposes a graduated tax on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2013, the Association has elected to file under Section 528. Income tax for the year was \$ -0-.

Currently, the open tax years available to audit by the IRS are 2011, 2012 and 2013. However, the Association has not been notified that any of these tax return years have been selected for audit by the IRS.

See the accompanying Independent Auditors' Report.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
 FOOTNOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013

FOOTNOTE 3: (CONTINUED):

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.

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance, and other services. These contracts are generally for a term of one year, and may generally be canceled by either party giving 30 day's notice.

FOOTNOTE 5: FAIR VALUE: The Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The carrying amounts reflected in the December 31, 2013 balance sheet for cash and cash equivalents approximate the respective fair values. All cash and cash equivalents, including money market accounts, are held in banks. The Association currently has no money market accounts with non-federally insured institutions.

FOOTNOTE 6: NOTE PAYABLE: The Association financed the purchase of playground equipment through InTouch Credit Union for \$ 32,000. The annual interest rate is 6.99 %, with a term of three years. Monthly payments of principal and interest in the amount of \$ 987.93 are to begin in January of 2014. The Association has pledged their receivables from assessments as collateral. Principal interest due over the life of the loan is:

2014	\$ 9,932.57
2015	10,649.53
2016	11,417.90
TOTAL:	\$ 32,000.00

See the accompanying Independent Auditors' Report.

THE VILLAGES OF INDIAN CREEK OWNERS ASSOCIATION
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

FOOTNOTE 7: REPLACEMENT FUND: The Association has not conducted a study to determine the amount of future major repairs and replacements. The Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors, however, has chosen to establish a replacement fund and to accumulate funds for the estimated costs of future major repairs and replacements. For the year ended December 31, 2013, the Association added \$ -0-, before earnings of \$ 31 to the replacement fund. Accumulated cash funds, which aggregate approximately \$ 20,378 at December 31, 2013, are held in separate accounts and are generally not available for operating purposes. If cash amounts are not sufficient to fund future major repairs and replacements, the Association may levy special assessments or increase regular assessments. Additionally, the Association may postpone needed repairs until funds are available.

See the accompanying Independent Auditors' Report.