

FINANCIAL STATEMENTS
as of and for the Year Ended
December 31, 2015

Waterford Park Homeowners Association, Inc.
P.O. Box 104
Argyle, TX 76226

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A

Andy D. Plagens, L.L.C.
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

President and Board of Directors
Waterford Park Homeowners Association, Inc.

I have audited the accompanying financial statements of Waterford Park Homeowners Association, Inc. (a Texas Non-Profit Corporation), 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

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 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 risk 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 Waterford Park Homeowners Association, Inc., as of December 31, 2015, and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information on Future Major Repairs and Reserves

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on Schedule A 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. I have applied certain limited procedure to the required supplementary information 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 me inquiries, the basic financial statements, and other knowledge I have obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Andy D. Plagens, L.L.C.

Dallas, Texas
August 12, 2016

Waterford Park Homeowners Association, Inc.

Balance Sheet

Year Ended December 31, 2015

	<u>2015</u>
ASSETS	
CURRENT ASSETS	
Cash - Undesignated	\$ 45,607
Cash - Designated	67,797
Accounts Receivable	
Less Allowance for Doubtful Accounts of \$825	2,541
Receivable from Operating Account	7,683
Prepaid Insurance	188
TOTAL CURRENT ASSETS	<u>123,816</u>
TOTAL ASSETS	<u>\$ 123,816</u>
 LIABILITIES AND MEMBERS' EQUITY	
CURRENT LIABILITIES	
Accounts Payable	\$ 263
Prepaid Assessments	22,860
Payable to Reserve Account	7,683
TOTAL CURRENT LIABILITIES	<u>30,806</u>
TOTAL LIABILITIES	<u>30,806</u>
MEMBERS' EQUITY	
Undesignated	17,531
Designated for Future Repairs and Replacements	75,479
TOTAL MEMBERS' EQUITY (DEFICIT)	<u>93,010</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)	<u>\$ 123,816</u>

See Accompanying Notes to Financial Statements

Waterford Park Homeowners Association, Inc.

Statement of Revenues and Expenses

Year Ended December 31, 2015

	<u>2015</u>
REVENUES	
Member Assessments - Operations	\$ 43,890
Interest Income	103
Other Income	<u>527</u>
TOTAL REVENUE	<u>44,520</u>
EXPENSES	
Bad Debt Expense	214
General and Administrative	1,324
Insurance	2,268
Legal and Professional	2,191
Management	6,384
Repairs and Maintenance	22,946
Telephone and Utilities	<u>7,539</u>
TOTAL EXPENSES	<u>42,866</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	<u><u>\$ 1,654</u></u>

See Accompanying Notes to the Financial Statemtents

Waterford Park Homeowners Association, Inc.

Statement of Changes in Members' Equity

Year Ended December 31, 2015

	<u>TOTAL</u>	<u>UNDESIGNATED</u>	<u>DESIGNATED FOR FUTURE REPAIRS/ REPLACEMENTS</u>
MEMBERS' EQUITY - January 01, 2015	\$ 91,356	\$ 20,780	\$ 70,576
Excess (Deficiency) of Revenues Over Expenses	1,654	1,551	103
Interfund Transfers	<u>-</u>	<u>(4,800)</u>	<u>4,800</u>
MEMBERS' EQUITY - December 31, 2015	<u>\$ 93,010</u>	<u>\$ 17,531</u>	<u>\$ 75,479</u>

See Accompanying Notes to the Financial Statemtents

Waterford Park Homeowners Association, Inc.

Statement of Cash Flows

Year Ended December 31, 2015

	<u>2015</u>
Cash Flows from Operating Activities	
Excess (Deficiency) of Revenues over Expenses	\$ 1,654
Adjustments to Reconcile Excess (Deficiency) of Revenues Over Expenses to Net Cash Provided By (Used In) Operating Activities:	
Bad Debts	214
Decrease (Increase) in Operating Assets:	
Accounts Receivable	308
Prepaid Insurance	2
Increase (Decrease) in Operating Liabilities:	
Accounts Payable	(41)
Prepays	<u>9,617</u>
Net Cash Provided By (Used In) Operating Activities	<u>11,754</u>
 Beginning Cash and Cash Equivalents	 <u>101,650</u>
Ending Cash and Cash Equivalents	<u><u>\$ 113,404</u></u>
 Supplemental Disclosure	
Income Taxes Paid	<u><u>\$ NONE</u></u>
Interest Paid	<u><u>\$ NONE</u></u>

See Accompanying Notes to Financial Statements

Waterford Park Homeowners Association, Inc.
(A Texas Non-Profit Corporation)

Notes To Financial Statements
For The Years Ended December 31, 2015

1. NATURE OF ORGANIZATION

Waterford Park Homeowners Association (the "Association") is a Texas non-profit corporation, incorporated on June 1, 1998 (Charter No. 01491457-01) to provide for the operation and maintenance of the common facilities of a 133 unit single family residential development located in Flower Mound, Texas.

The Association is also known as Waterford Park Estates Homeowners Association.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The Association prepares its financial statements on the accrual basis of accounting. Under such basis, income and the related assets are recognized when earned and expenses are recognized when incurred. Revenue of the association is generated from collection of member dues and assessments; expenses consist primarily of insurance, utilities, management fees, and repairs and maintenance.

Fund Accounting – The Association's governing documents provide certain guidelines for its financial activities. To insure 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 for the general operations of the Association.

Reserve Fund – This fund is used to accumulate financial resources designated for (and restricted for) future major repairs and replacements.

Member Assessments – Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of members are determined by the board of directors. These assessments are based upon the member's uniform rate of assessment. Assessments receivable at the balance sheet date represent dues due from the unit owners. Any excess assessments at year end are retained by the Association for use in future years.

Cash Equivalents – For purpose of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with an original maturities of three months or less to be cash equivalents.

Common Area Property – Real property and common areas acquired from or donated by the developer and related improvements to such property are not recorded in the Association's financial statements because the Association cannot dispose of the property and; therefore they are not financial assets of the Association. Replacements and improvements to the common property are not capitalized but rather charged to expense when incurred. Personal property owned by the Association, if any, is capitalized at cost and depreciated over its estimated useful life using the straight-line method.

Income Taxes – Homeowner associations may be taxed either as homeowners' associations or as regular corporations (see Note 4).

See Accompanying Financial Statements.

Waterford Park Homeowners Association, Inc.
(A Texas Non-Profit Corporation)

Notes To Financial Statements
For The Years Ended December 31, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments – The carrying value of cash and cash equivalents, accounts receivable and payable, and accrued liabilities approximate fair value due to the short term maturities of these assets and liabilities.

Accounting Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect 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.

3. GOVERNING DOCUMENTS

The “Declaration of Covenants, Conditions and Restrictions” made in 1986 by Waterford, Ltd., a Limited Partnership, is the document that establishes the formal regulations for all of the property in the residential community (i.e. Association). It provides, among other things, that:

- ◆ Each unit owner (present and future) shall automatically be and must remain a member of the Association, and
- ◆ Each unit owner, tenants, and occupants of units (present and future), must comply with the declaration, bylaws, and rules and regulations, all as amended, of the Association.

4. FEDERAL INCOME TAXES

The Association (Federal ID No. 75-2769386) has the option of being taxed on the amount by which total revenues exceed total expenses (Form 1120), or it can elect to file under Section 528 of the Internal Revenue Code (Form 1120-H), which provides that the Association is exempt from taxation on amounts received as exempt function income such as membership dues, fees or assessments.

The Association has elected to file a Form 1120-H Federal Income Tax Return for the year ended December 31, 2015, resulting in no federal income tax expense.

5. MANAGEMENT CONTRACT AND FEES

The Association contracted for the services of Community Management Group (“CMG”), a professional management company, as its management agent commencing January 1, 2005. Management fees of \$6,384 were paid to the agent for the year ended December 31, 2015.

See Accompanying Financial Statements.

Waterford Park Homeowners Association, Inc.
(A Texas Non-Profit Corporation)

Notes To Financial Statements
For The Years Ended December 31, 2015

6. FUTURE MAJOR REPAIRS AND REPLACEMENTS

Funding - The Board of Directors has the responsibility of determining whether the current funding is adequate for the replacement of Association common areas. The current program may not be sufficient to meet all future replacement costs.

If replacement funds are needed in the future, the Association has the right to increase the monthly assessments, pass special assessments, or delay replacement until funds are available.

Neither the Association's governing documents nor regulatory authorities or statutes require that funds be accumulated for future major repairs or replacement of common property items. Therefore, it is the responsibility of the Board of Directors to make such determination. The Board of Directors, by resolution, the past fiscal year, has resolved that any amounts in excess of operating expenses, shall be set aside as reserves for future financial needs.

7. OFFICERS AND DIRECTORS

The Association is under homeowner control and the officers and directors are as follows:

Jim Donohue – President and Director
Chris Custard – Vice President and Director
Kevin Wheaton – Secretary and Director
Jimmy Scott – Treasurer and Director
Adam Schiestel – Assist. Treasurer/Secretary and Director

8. COMMITMENTS

The Association enters into various contracts for management, landscape and other services. Generally these contracts are for a one year term with 30 day cancellation clause by either party.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 12, 2016, the date the financial statements were available to be issued, for recognition or disclosure in the financial statements. Managements review discovered no other subsequent events that should be recognized or that are deemed significant enough for disclosure.

See Accompanying Financial Statements.

Waterford Park Homeowners Association, Inc.
(A Texas Non-Profit Corporation)

**Supplemental Information On Future
Major Repairs and Replacements
December 31, 2015
(Unaudited)**

In July 28, 2015, the Board of Directors engaged Criterium Dotson Engineers to conduct a reserve study to estimate the remaining useful lives and the replacement costs of the components of common property.

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

<u>Description</u>	<u>Current Replacement Cost</u>	<u>Normal Useful Life Years</u>	<u>Remaining Life* Years</u>	<u>Ideal Annual Contribution</u>
<u>Site</u> ⁽¹⁾				
Accent lights, monuments - replacement	\$ 1,400	8	1	\$ 771
Cast-stone signage replacement	3,200	25	8	1,370
Entrance monument – re-paint lettering	980	10	4	370
Entrance monument repairs	5,250	10	7	991
Entrance monument replacement	30,000	30	20	6,294
Entrance monument replacement	40,000	30	21	7,553
Pilaster repairs	5,625	10	6	5,625
Planter bed repairs	1,000	12	10	105
Tree trimming	6,000	10	10	-
Wrought iron fencing–clean/prime/paint	7,319	7	1	3,948
Wrought iron fencing replacement	98,175	40	13	41,711
Wrought iron street light–clean/prime/paint	2,520	8	6	397
Wrought iron street light replacement	26,250	30	20	5,508
<u>Mechanical</u>				
Electrical panel replacement - site	4,800	18	5	2,182
Irrigation controller replacement	2,600	12	7	682
<u>Amenities</u>				
<u>Other</u>				
Reserve Study Updates	1,000	4	4	-
Contingency	860	1	0	541
Totals	<u>\$ 236,979</u>			<u>\$ 78,048</u>

*As of date of study

⁽¹⁾ Does not include common property of the Wilbow annexation.

SCHEDULE A