

**Fall Creek Homeowners
Association, Inc.**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**


December 31, 2013



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Fall Creek Homeowners Association, Inc.
Houston, Texas

We have audited the accompanying financial statements of Fall Creek Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2013, and the related statements of revenues and expenses, 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 Fall Creek Homeowners Association, Inc. 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.

Disclaimer of Opinion on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information on future major repairs and replacements on page 12 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.

Carr, Riggs & Ingram, L.L.C.

Houston, Texas
June 9, 2015

Fall Creek Homeowners Association, Inc.
Balance Sheet

| <i>December 31,</i> | 2013 |
|--------------------------------------|--------------|
| Assets | |
| Cash and cash equivalents | |
| Operating | \$ 1,615,495 |
| Serrano Creek | 288,452 |
| Reserve | 204,170 |
| Related party receivable | 89,777 |
| Prepays | 37,599 |
| <hr/> | |
| Total assets | \$ 2,235,493 |
| <hr/> <hr/> | |
| Liabilities and fund balances | |
| Accounts payable | \$ 119,981 |
| Assessments received in advance | 886,044 |
| Note payable | 42,651 |
| <hr/> | |
| Total liabilities | 1,048,676 |
| <hr/> | |
| Commitments and contingencies | |
| Fund balances | |
| Operating | 783,625 |
| Serrano Creek | 159,022 |
| Reserve | 244,170 |
| <hr/> | |
| Total fund balances | 1,186,817 |
| <hr/> | |
| Total liabilities and fund balances | \$ 2,235,493 |
| <hr/> <hr/> | |

The accompanying notes are an integral part of these financial statements.

Fall Creek Homeowners Association, Inc.
Statement of Revenues and Expenses

| <i>For the year ended December 31,</i> | 2013 | | | |
|---|-------------------|------------------|--------------------|-------------------|
| | Operating fund | Serrano Creek | Reserve fund | Total |
| Revenues | | | | |
| Assessments | \$ 2,128,883 | \$ 131,491 | \$ - | \$ 2,260,374 |
| Capitalization fees | 107,825 | - | - | 107,825 |
| Expense reimbursement | 172,599 | - | - | 172,599 |
| Interest and fees | 47,767 | - | - | 47,767 |
| Miscellaneous | 490 | 6,930 | 408 | 7,828 |
| Total revenues | 2,457,564 | 138,421 | 408 | 2,596,393 |
| Expenses | | | | |
| Administrative services | 97,868 | - | - | 97,868 |
| Capital improvements | - | 14,437 | - | 14,437 |
| Insurance | 36,789 | - | - | 36,789 |
| Interest expense | 4,055 | - | - | 4,055 |
| Landscaping | 833,823 | 54,818 | - | 888,641 |
| Legal and professional | 69,236 | - | - | 69,236 |
| Office expenses | 11,364 | - | - | 11,364 |
| Other expenses | 69,298 | (139) | - | 69,159 |
| Patrol services | 193,225 | - | - | 193,225 |
| Pool operations | 161,618 | - | - | 161,618 |
| Property taxes | 182 | - | - | 182 |
| Repairs and maintenance | 150,125 | 25,951 | 38,100 | 214,176 |
| Utilities | 345,088 | - | - | 345,088 |
| Total expenses | 1,972,671 | 95,067 | 38,100 | 2,105,838 |
| Excess (deficit) of revenues over expenses | \$ 484,893 | \$ 43,354 | \$ (37,692) | \$ 490,555 |

The accompanying notes are an integral part of these financial statements.

**Fall Creek Homeowners Association, Inc.
Statement of Changes in Fund Balances**

| | Operating fund | Serrano Creek | Reserve fund | Total |
|---|-------------------|------------------|-----------------|--------------|
| Fund balance, December 31, 2012 | \$ 580,594 | \$ 115,668 | \$ - | \$ 696,262 |
| Contributions | (281,862) | - | 281,862 | - |
| Excess (deficit) of revenues over expenses | 484,893 | 43,354 | (37,692) | 490,555 |
| Fund balance, December 31, 2013 | \$ 783,625 | \$ 159,022 | \$ 244,170 | \$ 1,186,817 |

The accompanying notes are an integral part of these financial statements.

Fall Creek Homeowners Association, Inc.
Statement of Cash Flows

| <i>For the year ended December 31,</i> | 2013 |
|--|---------------------|
| Operating activities | |
| Excess of revenues over expenses | \$ 490,555 |
| Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities | |
| Related party receivable | 10,952 |
| Other receivable | 20,525 |
| Prepays | (8,779) |
| Accounts payable | 21,838 |
| Assessments received in advance | 145,750 |
| Net cash provided by operating activities | 680,841 |
| Financing activities | |
| Repayment of note payable | (39,752) |
| Net increase in cash and cash equivalents | 641,089 |
| Cash and cash equivalents at beginning of year | 1,467,028 |
| Cash and cash equivalents at end of year | \$ 2,108,117 |
| Supplemental disclosure of cash flow information | |
| Interest paid | \$ 4,055 |

The accompanying notes are an integral part of these financial statements.



Fall Creek Homeowners Association, Inc. Notes to the Financial Statements

NOTE 1: NATURE OF ORGANIZATION

The Fall Creek Homeowners' Association, Inc. (the Association), a Texas non - profit corporation was formed in May 2001. The Association is responsible for operation and maintenance of the common property and preservation and architectural control of the subdivisions of land known as Fall Creek subject to the Declaration of Covenants, Conditions and Restrictions applicable to the Association. The Master Planned Community consists of 2,300 acres in Harris County, Texas and is still under development.

NOTE 2: 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.

Serrano Creek Fund – This fund is used to account for financial resources available for Serrano Creek, a gated community.

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, cash in bank, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

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. Annual assessments in 2013 were \$950 for homeowners and \$475 for platted lots owned by any builder or the Developer. An additional fee of \$700 per lot is assessed for owners in gated communities.



Fall Creek Homeowners Association, Inc. Notes to the Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assessments receivable at the balance sheet date represent fees due from residents and builders. The Association's charges interest on assessments over thirty days until assessments are paid in full. 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. An allowance is established for accounts whose collection is uncertain. As of December 31, 2013, assessments are net of an allowance for doubtful accounts of \$219,398.

Any excess assessments at year end are retained by the Association for use in the succeeding year. Additional assessments may be levied, as is deemed necessary by the Board to provide funds for operations or capital expenditures.

Fair Value Considerations

The Association uses fair value to measure financial assets and liabilities and certain nonfinancial assets and liabilities. The Association's financial instruments (primarily cash and cash equivalents, receivables, payables and bank borrowings) are carried in the accompanying financial statements at amounts which reasonably approximate fair value.

Income Taxes

Homeowners' associations may be taxed either as a homeowners' association or as a regular corporation. As a homeowners' association, the Association excludes from taxation exempt function income, which generally consists of revenue from uniform assessments to owners. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its non-membership income, such as interest earnings, at regular federal corporate rates. For the year ended December 31, 2013, the Association elected to be taxed as a homeowners' association.

The Association accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of December 31, 2013, management believes there were no uncertain tax positions. The Association's federal tax returns remain open to examination for a period of three years following its filing with the taxing authority.

Property Improvements

Real property and common areas 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.

**Fall Creek Homeowners Association, Inc.
Notes to the Financial Statements**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amount 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. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of receivables and future major repairs and replacements. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Subsequent Events

The Association has evaluated subsequent events through the date the financial statements were available for issuance on June 9, 2015. No matters were identified affecting the financial statements or related disclosures that have not been disclosed elsewhere.

NOTE 3: CONCENTRATION OF CREDIT RISK

The Association maintains cash accounts, which at times, may exceed the Federal Deposit Insurance Corporation's insured limit. The Association has not experienced any losses from maintaining cash accounts in excess of the federally insured limit. Management believes that it is not exposed to any significant credit risk on cash accounts due to the size and stability of the financial institutions.

NOTE 4: ASSESSMENTS RECEIVED IN ADVANCE

Revenue derived from assessments received in advance is deferred and included in income when the revenue is earned. As of December 31, 2013, assessments received in advance totaled \$886,044.

NOTE 5: NOTE PAYABLE

The Association's note payable to Texas Capital Bank is due in monthly installments of principal and interest of \$3,651. The interest rate is 6.00% and matures in December, 2014. The note is secured by property, assessments receivable, and a certificate of deposit. As of December 31, 2013, the outstanding balance is \$42,651.

The Association paid off the note payable in June 2014.



Fall Creek Homeowners Association, Inc.
Notes to the Financial Statements

NOTE 6: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association documents provide for a closing fee to be collected at the initial sale of a lot to a homeowner. The closing fee is to be equal to the annual assessment in the year of purchase unless the Board specifies a different amount. The closing fee was amended in December 31, 2002 to be equal to fifty percent of the annual maintenance fee. The documents stipulate the closing fees are to be deposited by the Association into a separate account to be designated as a reserve fund.

In 2012, the Association adopted a plan to begin accumulating funds for estimated future major repairs and replacement costs using inflation at an annual rate of 1%.

The plan was based on a reserve study performed in February 2012 to estimate the remaining useful lives and the replacement costs of the common property components. The reserve study used the cash flow method and was obtained from licensed contractors who inspected the property.

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 and, 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, 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.

In September 2014, the Association requested an update to the reserve study which has not been finalized and approved as of June 9, 2015.

NOTE 7: EXPENSE REIMBURSEMENTS

In 2013, the Association received reimbursements totaling \$172,599 per an arrangement with Harris County for trash expenditures.

Fall Creek Homeowners Association, Inc.
Notes to the Financial Statements

NOTE 8: RELATED PARTIES

The residential subdivisions within the Association are still under development and thus the Association is still in the control of the Developer. The Association will remain under Developer control until all lots are sold or until the Developer turns control over to the homeowners. Effective January 1, 2015, the Developer turned over control to the Fall Creek homeowners.

The Declaration for the Association provides for the establishment of a foundation for the purposes of maintaining transfer fees paid by each purchaser at the subsequent sale of any residential lot except exempt transfers. The transfer fee is to be used as deemed beneficial to the welfare of the community, including the enhancement and/or improvement of infrastructure with the community. The transfer fee is to be payable to the Association and shall be secured by the Association's lien as stipulated in the Declaration. The Association Board shall determine the amount of the transfer fee; provided, however the Foundation payment shall not be greater than 0.25% of the gross selling price of the applicable property. The Foundation, Fall Creek Community Services, was established in 2001. As of December 31, 2014, the Association owes \$43,098 to the Foundation, which is included in accounts payable in the accompanying balance sheet.

In prior years, the Association advanced the Foundation funds to cover renovation costs under informal arrangements. As of December 31, 2013, the Association is owed \$89,777 from the Foundation.

In March 2012, the Association entered into a joint maintenance agreement with Fall Creek Commercial Property Owners Associations, Inc. (POA). The Association will hold the master contracts and pay for all the landscaping for common areas and the operation of all street lights located in Fall Creek. The POA will pay its pro-rata share of the common area maintenance and street light electricity costs, which the POA's pro-rata will be thirty percent. The agreement can be terminated by either the Association or POA upon thirty days written notice to the other party.

NOTE 9: COMMITMENTS AND CONTINGENCIES

Legal

The Association periodically is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect of the financial position of the Association.



SUPPLEMENTARY INFORMATION

Fall Creek Homeowners Association, Inc.
Supplementary Information on Future Major Repairs and Replacements
(Unaudited)
December 31, 2013

The Association's board of directors conducted a study in February 2012 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were obtained from licensed contractors who inspected the property. Replacement costs were based on the estimated costs using the cash flow method 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; however it takes into account the effects of inflation at an annual rate of 1% between the date of the study and the date that the components will require repair or replacement. Further, it takes in consideration 0.5% estimated annual rate of return on invested reserves.

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 current replacements costs |
|--------------------------|---|---|
| Streets | 3 to 8 | \$ 834,563 |
| Exterior siding | 3 to 11 | 722,793 |
| Furniture and equipment | 3 to 11 | 406,135 |
| Tennis courts | 2 to 16 | 281,593 |
| Club interior renovation | 1 to 26 | 247,090 |
| Metal fences | 3 to 19 | 220,090 |
| Water park systems | 4 to 16 | 193,726 |
| Signage | 5 to 14 | 84,072 |
| Gates | 1 to 11 | 74,991 |
| Parking | 16 | 46,903 |
| Roofs | 11 | 42,172 |
| Totals | | \$ 3,154,128 |

See independent auditor's report.