

**THE VILLAGES OF WOODLAND SPRINGS  
HOMEOWNERS ASSOCIATION, INC.**

**FINANCIAL STATEMENTS  
(WITH AUDITOR'S REPORT THEREON)**

**YEAR ENDED JUNE 30, 2004**

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**INDEPENDENT AUDITOR'S REPORT**

**To The Board of Directors and Members of  
The Villages of Woodland Springs Homeowners Association, Inc.**

I have audited the accompanying balance sheet of The Villages of Woodland Springs Homeowners Association, Inc. as of June 30, 2004, and the related statements of revenues, expenses, and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Villages of Woodland Springs Homeowners Association, Inc. as of June 30, 2004, 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.

My audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of expenses on pages 12 and 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Association has not estimated the remaining useful lives and replacement costs of the components of common property and, therefore, has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

*BH Lane P.C.*

**December 21, 2004**  
**Plano, Texas**

## FINANCIAL STATEMENTS

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**  
**BALANCE SHEET**  
**JUNE 30, 2004**

**ASSETS**

Cash	\$ 102,990
Member assessments receivable (net of allowance for doubtful accounts of \$19,000)	20,502
Prepaid insurance	<u>2,387</u>
<b>Total Assets</b>	<b><u>\$ 125,879</u></b>

**LIABILITIES AND FUND BALANCE**

<b>Liabilities:</b>	
Accounts payable and accrued expenses	\$ 43,891
Assessments received in advance (Note 6)	<u>72,270</u>
<b>Total Liabilities</b>	<b>116,161</b>
<b>Fund Balance - Undesignated</b>	<b><u>9,718</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 125,879</u></b>

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

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2004**

**REVENUES**

Member assessments	\$ 575,640
Capitalization fees	48,300
Developer subsidies	40,952
Transfer fee income	34,625
Late charges and other income	5,206
Resale certificate reimbursements	5,200
Interest income	<u>73</u>
<b>Total Revenues</b>	<b>709,996</b>

**EXPENSES**

Landscape maintenance	202,994
Utilities	130,342
Management fees (Note 4)	115,613
Pool service, maintenance, and supplies	72,284
Repairs and maintenance	41,242
Insurance	27,237
Common area maintenance	24,798
Bad debts	19,873
General and administrative	18,694
Special projects - photo ID card system	7,478
Security monitoring	3,576
Professional fees	1,566
Real estate (property) taxes	<u>3</u>
<b>Total Expenses</b>	<b><u>665,700</u></b>
<b>Excess (Deficiency) of Revenues Over Expenses</b>	<b>44,296</b>
<b>Fund Balance (Deficit), July 1, 2003</b>	<b><u>(34,578)</u></b>
<b>Fund Balance, June 30, 2004</b>	<b><u>\$ 9,718</u></b>

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

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2004**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Excess (Deficiency) of Revenues Over Expenses \$ 44,296

Adjustments to reconcile excess (deficiency) of revenues over expenses to  
net cash provided (used) by operating activities:

**(Increase) Decrease in Assets:**

Member assessments receivable, net of allowance for doubtful accounts 13,436  
Prepaid insurance (177)  
Other prepaid expenses 512

**Increase (Decrease) in Liabilities:**

Accounts payable and accrued expenses (45)  
Accounts payable - other (8,499)  
Assessments received in advance 25,927

**Total Adjustments** 31,154

**Net Cash Provided (Used) by Operating Activities** 75,450

**CASH FLOWS FROM INVESTING ACTIVITIES:** -0-

**CASH FLOWS FROM FINANCING ACTIVITIES:** -0-

**NET INCREASE (DECREASE) IN CASH** 75,450

**CASH, JULY 1, 2003** 27,540

**CASH, JUNE 30, 2004** \$ 102,990

**SUPPLEMENTAL DISCLOSURE**

Federal income taxes paid \$ 0

Interest paid \$ 0

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

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2004**

**NOTE 1) NATURE OF ORGANIZATION**

The Villages of Woodland Springs Homeowners Association, Inc. (the "Association"), formed under the Texas Non-Profit Corporation Act, was incorporated on August 18, 2000 in the State of Texas. The affairs of the Association are governed in accordance with the Bylaws and by the provisions of the Declaration of Covenants, Conditions, and Restrictions, as amended and restated, by an elected Board of Directors. The Association is responsible for the operation and maintenance of the common property within the development. The development consists of approximately 2,756 residential units, in six (6) phases, located in Fort Worth, Texas. All owners of the 2,756 lots, containing approximately 1,404 residential units and 897 builder owned lots, within The Villages of Woodland Springs Homeowners Association, Inc. are members of the Association. The Association is in the development stage and is under the control of the developer, Keller Joint Venture, a Texas Joint Venture. At June 30, 2004, the developer owned approximately 455 lots within the Association.

**NOTE 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***BASIS OF FINANCIAL STATEMENT PRESENTATION***

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). As such, revenues are recorded when earned and expenses are recorded when the obligations are incurred.

***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 which requires that funds designated for future major repairs and replacements be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors. Disbursements from the replacement fund generally may be made only for designated purposes. Currently, all disbursements are directed through the operating fund.

***CASH AND CASH EQUIVALENTS***

The Association considers cash and short term investments, with a maturity date of three (3) months or less from the date purchase, as cash and cash equivalents. The Association maintains its cash balances at two (2) financial institutions located in Dallas, Texas. The accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

***MEMBER ASSESSMENTS***

Association members are subject to semi-annual 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 undivided interest in the common properties. Member 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 severely delinquent. Any excess operating assessments at year end are retained by the Association for use in future operating periods.

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**-Continued-**

**NOTE 2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***FEDERAL INCOME TAXES***

Homeowners' associations may elect to be taxed either as homeowners' associations under Section 528 of the Internal Revenue Code or as regular corporations under Section 277. For the year ended June 30, 2004, the Association elected to be taxed as a homeowners' association. Under that election, the Association is taxed on its nonexempt function income, such as interest income and revenue received from nonmembers, less related expenses, at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. Under Section 528, the Association incurred no federal income tax liability or expense for the year ended June 30, 2004.

***PROPERTY AND EQUIPMENT***

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At June 30, 2004, property not capitalized consists of all common property in the development. Property and equipment acquired by the Association is recorded at cost and property contributed to the Association is recorded at estimated fair market value at the date of contribution.

***ESTIMATES***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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 may differ from those estimates.

***FINANCIAL INSTRUMENTS***

A financial instrument is cash or other evidence of ownership or conveyance of rights to receive cash or other financial instruments from another party. The Association's financial instruments include cash, accounts receivable, and accounts payable. As of June 30, 2004, the financial instruments were stated at fair market value.

**NOTE 3) FUTURE MAJOR REPAIRS AND REPLACEMENTS**

The Board of Directors and management company have not conducted a study to estimate the remaining useful lives and the replacement costs of the components of common property. The Association is funding future major repairs and replacements through excess operating fund assessments. However, if additional funds are needed, the Association has the right to increase regular assessments, pass special assessments, borrow, or it may delay major repairs and replacements until funds are available. The effect on future assessments has not been determined.

**-Continued-**

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**-Continued-**

**NOTE 4) MANAGEMENT AGREEMENT**

The Association utilizes the services of SBB Management Company as its property management agent. The contract, dated July 20, 2001, calls for monthly payments, effective January 1, 2003, of \$3 per lot per month for each lot annexed into the Association according to or confirmed by a final plat, and effective December 1, 2003, monthly payments of \$5,000. SBB Management company also provides the on-site management to the Association. In connection therewith, management fees of \$115,613 were paid to the agent in fiscal year ended June 30, 2004. In addition, the Association paid approximately \$8,600 to the agent for administrative expenses including postage, copies, mailings, faxes, etc. The contract renews each August 1<sup>st</sup> and can be terminated by either party, with or without cause, upon giving thirty (30) days written notice.

**NOTE 5) DECLARANT AND COMMON CONTROL**

Under the terms of the Declaration of Covenants, Conditions, and Restrictions, as amended and restated, the developer is not responsible for paying dues on declarant owned lots. Instead, the declarant may, but shall have no obligation to, subsidize the Association for any operating deficit incurred by the Association. For the fiscal year ended June 30, 2004, the declarant subsidized the Association in the amount of \$40,952.

**NOTE 6) DEFERRED REVENUE (ASSESSMENTS RECEIVED IN ADVANCE)**

The Association reports assessments received in advance on its balance sheet. This represents assessments for fiscal year ended June 30, 2005 which were received prior to July 1, 2004.

**NOTE 7) CONCENTRATIONS OF CREDIT RISK FOR CASH DEPOSITS**

At various points during the year, the Association was at risk of loss due to inadequate Federal Deposit Insurance Corporation (FDIC) coverage on the accounts held at Town North Bank and First National Bank. On March 12, 2004, the Association had a potential maximum loss of \$25,003 at Town North Bank. Although this was the maximum potential loss that could have occurred, other instances of potential losses were noted. However, the Association's cash balances were adequately insured at June 30, 2004.

## **SUPPLEMENTARY INFORMATION**

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**  
**SCHEDULE OF EXPENSES**  
**YEAR ENDED JUNE 30, 2004**

**LANDSCAPE MAINTENANCE**

Landscape maintenance	\$ 176,389
Landscape improvements and annual color	<u>26,605</u>
<b>Total Landscape Maintenance</b>	<b><u>\$ 202,994</u></b>

**UTILITIES**

Water and sewer	\$ 95,351
Electricity - common area	<u>34,991</u>
<b>Total Utilities</b>	<b><u>\$ 130,342</u></b>

**MANAGEMENT FEES**

Management fees	\$ 70,721
On-site management fees	<u>44,892</u>
<b>Total Management Fees</b>	<b><u>\$ 115,613</u></b>

**POOL SERVICE, MAINTENANCE, AND SUPPLIES**

Pool supplies and chemicals	\$ 24,498
Pool furniture and fixtures	20,264
Pool service	19,928
Pool life guard - monitors	6,136
Pool permits and license fees	965
Pool telephone	<u>493</u>
<b>Total Pool Service, Maintenance, and Supplies</b>	<b><u>\$ 72,284</u></b>

**REPAIRS AND MAINTENANCE**

Irrigation (sprinkler) system repairs	\$ 24,134
Pond maintenance	13,537
Playground maintenance	2,038
Fountain maintenance	<u>1,533</u>
<b>Total Repairs and Maintenance</b>	<b><u>\$ 41,242</u></b>

**INSURANCE**

General liability	\$ 26,531
Directors and officers	<u>706</u>
<b>Total Insurance</b>	<b><u>\$ 27,237</u></b>

**COMMON AREA MAINTENANCE**

Common area maintenance and cleaning	\$ 17,601
Electrical repairs	4,044
Fence, gates, and wall repairs	1,800
Pest control	<u>1,353</u>
<b>Total Common Area Maintenance</b>	<b><u>\$ 24,798</u></b>

**THE VILLAGES OF WOODLAND SPRINGS HOMEOWNERS ASSOCIATION, INC.**

**SCHEDULE OF EXPENSES  
YEAR ENDED JUNE 30, 2004**

**-Continued-**

**GENERAL AND ADMINISTRATIVE**

Office supplies and expenses	\$ 11,632
On-site office telephone	2,894
Homeowner functions	2,581
On-site office remodeling	1,565
On-site office computer, printer, and fax expenses	<u>22</u>
<b>Total General and Administrative</b>	<b><u>\$ 18,694</u></b>

**PROFESSIONAL FEES**

Legal fees	\$ 1,116
Tax return preparation fees	<u>450</u>
<b>Total Professional Fees</b>	<b><u>\$ 1,566</u></b>