

***FAIR OAKS RANCH  
HOMEOWNERS ASSOCIATION, INC.***

***FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION***

***FOR THE YEAR ENDED  
DECEMBER 31, 2017***

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members  
Fair Oaks Ranch Homeowners Association, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Fair Oaks Ranch Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2017, and the related statement of revenues, expenses, and changes in fund balances, and cash flow 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 association'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 association'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 Fair Oaks Ranch Homeowners Association, Inc. as of December 31, 2017 and the results of its operations and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report 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 13 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.

*Armstrong, Vaughan & Associates, P.C.*

Armstrong, Vaughan & Associates, P.C.

April 6, 2018

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Total
<b>ASSETS</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 290,002	\$ -	\$ 290,002
Certificates of Deposit	62,146	43,303	105,449
Accounts Receivable	13,231	-	13,231
Allowance for Doubtful Accounts	(687)	-	(687)
Prepaid Insurance	7,873	-	7,873
<i>Total Current Assets</i>	372,565	43,303	415,868
 <i>Property and Equipment:</i>			
Park Equipment	99,102	-	99,102
Pavilion	75,880	-	75,880
Accumulated Depreciation	(53,505)	-	(53,505)
<i>Total Property and Equipment</i>	121,477	-	121,477
<b>TOTAL ASSETS</b>	\$ 494,042	\$ 43,303	\$ 537,345
 <b>LIABILITIES AND FUND BALANCE</b>			
<i>Liabilities:</i>			
Accounts Payable	\$ 1,392	\$ -	\$ 1,392
Federal Income Tax Payable	1,608	-	1,608
Payroll Liabilities	1,616	-	1,616
Prepaid Assessments	1,453	-	1,453
Accrued Compensated Absences	2,567	-	2,567
Deferred Revenue	3,000	-	3,000
<i>Total Liabilities</i>	11,636	-	11,636
<i>Fund Balance</i>	482,406	43,303	525,709
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$ 494,042	\$ 43,303	\$ 537,345

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

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Total
<b>REVENUES</b>			
Assessments	\$ 243,305	\$ -	\$ 243,305
Transfer Fees	42,835	-	42,835
Resale Certificates	20,265	-	20,265
Unit Billing Fees	11,788	-	11,788
Late Fees	3,480	-	3,480
Donations	6,845	-	6,845
Architectural Fees	300	-	300
Miscellaneous Income	300	-	300
Interest Income	244	1,318	1,562
<b>TOTAL REVENUES</b>	<u>329,362</u>	<u>1,318</u>	<u>330,680</u>
<b>EXPENSES</b>			
<i>Administration Expenses:</i>			
Office Salaries	80,836	-	80,836
Insurance	31,035	-	31,035
Administrative Expense	31,888	-	31,888
Legal and Professional	13,605	-	13,605
Depreciation Expense	11,252	-	11,252
Program Expenses	8,175	-	8,175
Payroll and Taxes	6,430	-	6,430
Telephone Expense	3,921	-	3,921
Meeting Expenses	3,180	-	3,180
Taxes	2,201	-	2,201
Accounting	1,900	-	1,900
Website Expense	1,109	-	1,109
Bank Charges	236	-	236
<i>Total Administration Expenses</i>	<u>195,768</u>	<u>-</u>	<u>195,768</u>
<i>Common Area Expenses:</i>			
Property Management	70,640	-	70,640
Signage	10,132	-	10,132
Cleaning Contract	1,636	-	1,636
<i>Total Common Area Expenses</i>	<u>82,408</u>	<u>-</u>	<u>82,408</u>
<b>TOTAL EXPENSES</b>	<u>\$ 278,176</u>	<u>\$ -</u>	<u>\$ 278,176</u>

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

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE (CONT)  
 FOR THE YEAR ENDED DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Total
<b>Excess (Deficiency) of Revenues Over (Under) Expenses</b>	\$ 51,186	\$ 1,318	\$ 52,504
Transfers Between Funds	63,711	(63,711)	
<b>BEGINNING FUND BALANCE</b>	367,509	105,696	473,205
<b>ENDING FUND BALANCE</b>	\$ 482,406	\$ 43,303	\$ 525,709

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

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>CASH FLOWS FROM</b>			
<b>OPERATING ACTIVITIES</b>			
Excess (deficiency) of revenues over (under) expenses	\$ 51,186	\$ 1,318	\$ 52,504
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (used) by operating activities:			
Depreciation Expense	11,252	-	11,252
(Increase) Decrease in:			
Accounts Receivable - Members (Net)	(4,366)	-	(4,366)
Prepaid Insurance	-	-	-
Prepaid Income Tax	609	-	609
Increase (Decrease) in:			
Accounts Payable	509	-	509
Income Tax Payable	1,608	-	1,608
Payroll Liabilities	(148)	-	(148)
Prepaid Assessments	129	-	129
Accrued Compensated Absences	1,379	-	1,379
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<u>62,158</u>	<u>1,318</u>	<u>63,476</u>
<b>CASH FLOWS FROM</b>			
<b>INVESTING ACTIVITIES</b>			
Park Equipment Purchase	(13,311)	-	(13,311)
Reinvestment of Certificates of Deposit	(62,146)	60,828	(1,318)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<u>\$ (75,457)</u>	<u>\$ 60,828</u>	<u>\$ (14,629)</u>
<b>CASH FLOWS FROM</b>			
<b>FINANCING ACTIVITIES</b>			
Transfer Between Funds	63,711	(63,711)	-
Due to Replacement Fund	(1,565)	1,565	-
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>\$ 62,146</u>	<u>\$ (62,146)</u>	<u>\$ -</u>

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

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS (CONT)  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Operating Fund	Replacement Fund	Total
<b>NET INCREASE (DECREASE) IN CASH</b>	\$ 48,847	\$ -	\$ 48,847
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	241,155	-	241,155
<b>ENDING CASH AND CASH EQUIVALENTS</b>	\$ 290,002	\$ -	\$ 290,002
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Income Taxes Paid	\$ 2,000	\$ -	\$ 2,000
Interest Expense Paid	\$ -	\$ -	\$ -

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

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017

NOTE 1 -- NATURE OF ORGANIZATION

Fair Oaks Ranch Homeowners Association, Inc. was incorporated in Fair Oaks Ranch, Texas, on September 5, 1977. The Association is responsible for the maintenance of common areas owned by the Association, including landscaping; fences and gate; payment of utilities used on the common area; taxes assessed upon common area; insurance covering Association property for general hazards and liability; and management and administration of the Association. The Association consists of 2,992 homes and 398 lots.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHOD/FUND ACCOUNTING

The Association maintains its books of account on the cash basis of accounting. However, for this report and to be in conformance with generally accepted accounting principles, they were converted to the accrual basis of accounting. Under this method of accounting, revenue is recognized when assessments are earned, or billed, and expenses are recognized when goods or services are received, whether paid or not.

To ensure observance of limitations and restrictions on use of financial resources, 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 major repairs and replacement of existing facilities or equipment in accordance with the Association's Capital Reserve and Contingency Policy.

B. CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the association includes amounts in checking and money market accounts.

C. ACCRUED COMPENSATED ABSENCES

It is the Association's policy to permit employees to accumulate earned but unused vacation. All vacation is paid when employees separate from the Association. The amount of earned but unused vacation is reported on the balance sheet as Accrued Compensated Absences.

D. MEMBER ASSESSMENTS

Association members are subject to annual assessments for the improvement, maintenance, and preservation of the Common Area and the buildings situated upon the properties; for the enforcement of any restrictions of the Association; and for the payment of any insurance premiums, utilities and similar expenses for which the Association is responsible.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

D. MEMBER ASSESSMENTS (Continued)

Any assessment not paid within thirty (30) days after the due date shall be deemed in default and shall bear an automatic late fee as determined by the board as well as interest from the due date at a rate equal to the maximum rate allowed by law. The Association may bring legal actions against owners personally for the collection of unpaid assessments. Once legal action has commenced all legal fees and costs will be assessed to the unit owners. Any excess assessments at year-end are retained by the Association for use in future years. The Association's policy for charging off uncollectible receivables is determined on a case by case basis. The Association vigorously pursues the collection of receivables until ownership has changed through sale or foreclosure and the Association may no longer pursue collections from the previous owner.

An allowance for doubtful accounts has been established in the amount of \$687 per management's estimate.

Revenues from assessments are recognized in the period assessed. Assessments received in advance of the period are deferred and reported on the balance sheet as prepaid assessments.

E. PROPERTY AND EQUIPMENT

Real property and common areas acquired from developer and related improvements to such property are not reflected on the Association's financial statements. These common areas include, but are not limited to, the park and playground. Those properties are owned by the individual home owners in common and not by the Association.

The Association recognizes real and personal property assets at cost to which it has title. The property is depreciated over its estimated useful life using the straight-line method of depreciation. The following estimated useful life is as follows:

<u>Fixed Asset</u>	<u>Useful Life (Years)</u>
Playground Equipment	10
Pavilion	40

F. FISCAL YEAR

The Association has a fiscal year beginning on January 1 of each year and ending on December 31.

G. 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2017

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

H. SUBSEQUENT EVENTS

Subsequent events were considered through April 6, 2018, which is the date the financial statements were available to be issued.

NOTE 3 -- FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require the Association establish adequate reserve funds for future major repair and replacement of Common Area components. This reserve is to be funded by regular assessments or special assessments.

The Association's reserve study was reviewed and updated by the Board of Directors in March 2018 to estimate the timing and costs of major repairs and replacement of the common property assets designated in the Association's Capital Reserve and Contingency Policy. The table included in the unaudited supplementary information is based on the study.

The Association increased replacement reserves by \$1,318 and transferred out \$63,711 due to current funding exceeding ideal levels, leaving a balance of \$43,303 in the replacement fund. Because funding is based on estimates, actual needs may vary significantly from the study and this variance could be material. Monies accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. Thus, the Board has the right to raise regular assessments or levy a special assessment to meet these needs.

NOTE 4 -- INCOME TAXES

The Association qualifies as a tax-exempt association for all income and expenses related to its exempt function purpose of the acquisition, construction, management, maintenance, and care of Association property. The net non-exempt income from earned interest and nonmember fees is taxed at 15% or 30% by the federal government, dependent upon certain filing elections made. The Association can also elect to file as a regular corporation if it is in their best interest. For 2017, the Association filed IRS Form 1120-H resulting in tax expense of \$2,023.

Accounting principles generally accepted in the United States of America require Association management to evaluate tax positions taken by the Association and recognize a tax liability (or asset) if the Association has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Association, and has concluded as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition as a liability (or asset) or disclosure in the financial statements. The Association is subject to routine examinations by taxing authorities; however, there are currently no examinations for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2014.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONT.)  
 DECEMBER 31, 2017

NOTE 5 -- UNIT BILLING FEES

The Association collected \$11,788 in unit billing fees for billing the assessments on behalf of other homeowner associations within Fair Oaks Ranch.

NOTE 6 -- DEFERRED REVENUE

As of December 31, 2017, the Association collected \$3,000 in sponsorship income for a 2018 Association event. These amounts are included in Deferred Revenue on the Balance Sheet.

NOTE 7 -- OPERATING LEASE

The Association leases a copier with a lease term of 60 months which began June 30, 2015. A monthly payment of \$214 will be made through June 2020. The future minimum lease payments are as follows:

<u>Year Ended December 31</u>	<u>Payment</u>
2018	\$ 2,568
2019	2,568
2020	1,284
	<u>\$ 6,420</u>

NOTE 8 -- UNINSURED DEPOSITS

As of December 31, 2017, the Association's Frost Bank balance has exceeded the coverage provided by the Federal Deposit Insurance Corporation (FDIC).

	<u>Per Bank</u>	<u>Per Books</u>
Deposits Covered by FDIC Insurance	\$250,000	\$250,000
Uncollateralized	51,793	38,328
	<u>\$301,793</u>	<u>\$288,328</u>

NOTE 9 -- LITIGATION

Management is not aware of any pending or threatened lawsuits.

REQUIRED SUPPLEMENTARY INFORMATION

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.  
 FUTURE MAJOR REPAIRS AND REPLACEMENTS  
 DECEMBER 31, 2017  
 (UNAUDITED)

The Board of Directors performed a reserve study in March 2018. The estimates below were obtained from the reserve study and estimates may vary significantly from actual costs. The following is a table based on the study and presents significant information about the components of common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>Replacement Fund Balance at 12/31/2017</u>
Boots Pavilion	31	\$ 90,517	\$ 13,373
Boots Playset	8	38,869	18,894
Vestal Playset	13	62,464	11,036
		<u>\$ 191,850</u>	<u>\$ 43,303</u>
Amount Ideally Funded as of December 31, 2017			<u>\$ 45,409</u>
Percent Ideally Funded			95.4%

Recommended Future Contributions Based on Original Projections:

2018	\$ 7,310
2019	\$ 7,310
2020	\$ 7,310