

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

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

***FOR THE YEAR ENDED
DECEMBER 31, 2016***

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statements of Fair Oaks Ranch Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2016, 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statement as a whole. Accordingly, we do not express such an opinion.

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 the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that information about future major repairs and replacements of common property 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on it.

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

August 8, 2017

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2016

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
ASSETS			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 241,155	\$ -	\$ 241,155
Certificates of Deposit	-	104,131	104,131
Accounts Receivable	8,178	-	8,178
Prepaid Insurance	7,873	-	7,873
Prepaid Income Tax	609	-	609
Due to Replacement Fund	(1,565)	1,565	-
<i>Total Current Assets</i>	<u>256,250</u>	<u>105,696</u>	<u>361,946</u>
<i>Property and Equipment:</i>			
Park Equipment	85,791	-	85,791
Pavilion	75,880	-	75,880
Accumulated Depreciation	(42,253)	-	(42,253)
<i>Total Property and Equipment</i>	<u>119,418</u>	<u>-</u>	<u>119,418</u>
 TOTAL ASSETS	 <u><u>\$ 375,668</u></u>	 <u><u>\$ 105,696</u></u>	 <u><u>\$ 481,364</u></u>
 LIABILITIES AND FUND BALANCE			
<i>Liabilities:</i>			
Accounts Payable	\$ 883	\$ -	\$ 883
Payroll Liabilities	1,764	-	1,764
Prepaid Assessments	1,324	-	1,324
Accrued Compensated Absences	1,188	-	1,188
Deferred Revenue	3,000	-	3,000
<i>Total Liabilities</i>	<u>8,159</u>	<u>-</u>	<u>8,159</u>
 <i>Fund Balance</i>	 <u>367,509</u>	 <u>105,696</u>	 <u>473,205</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u><u>\$ 375,668</u></u>	 <u><u>\$ 105,696</u></u>	 <u><u>\$ 481,364</u></u>

See accompanying notes and Independent Accountant's Review Report.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
REVENUES			
Assessments	\$ 236,038	\$ -	\$ 236,038
Transfer Fees	47,300	-	47,300
Resale Certificates	18,950	-	18,950
Unit Billing Fees	11,652	-	11,652
Late Fees	4,045	-	4,045
Donations	3,000	-	3,000
Architectural Fees	1,725	-	1,725
Filing and Recording Fees	156	-	156
Miscellaneous Income	33	-	33
Interest Income	153	1,225	1,378
TOTAL REVENUES	323,052	1,225	324,277
EXPENSES			
<i>Administration Expenses:</i>			
Office Salaries	93,085	-	93,085
Insurance	28,436	-	28,436
Administrative Expense	22,410	-	22,410
Program Expenses	20,156	-	20,156
Depreciation Expense	10,476	-	10,476
Payroll and Taxes	7,434	-	7,434
Legal and Professional	4,700	-	4,700
Telephone Expense	3,726	-	3,726
Meeting Expenses	2,698	-	2,698
Accounting	1,900	-	1,900
Website Expense	885	-	885
Taxes	1,794	-	1,794
Bank Charges	85	-	85
<i>Total Administration Expenses</i>	197,785	-	197,785
<i>Common Area Expenses:</i>			
Property Management	50,388	-	50,388
Signage	12,260	-	12,260
Cleaning Contract	1,340	-	1,340
Peace Tree	385	-	385
<i>Total Common Area Expenses</i>	64,373	-	64,373
TOTAL EXPENSES	\$ 262,158	\$ -	\$ 262,158

See accompanying notes and Independent Accountant's Review Report.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE (CONT)
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ 60,894	\$ 1,225	\$ 62,119
BEGINNING FUND BALANCE	306,615	104,471	411,086
ENDING FUND BALANCE	\$ 367,509	\$ 105,696	\$ 473,205

See accompanying notes and Independent Accountant's Review Report.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
CASH FLOWS FROM			
OPERATING ACTIVITIES			
Excess (deficiency) of revenues over (under) expenses	\$ 60,894	\$ 1,225	\$ 62,119
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (used) by operating activities:			
Depreciation Expense	10,476	-	10,476
(Increase) Decrease in:			
Accounts Receivable	(1,537)	-	(1,537)
Prepaid Income Tax	2	-	2
Increase (Decrease) in:			
Accounts Payable	(2,146)	-	(2,146)
Payroll Liabilities	1,764	-	1,764
Prepaid Assessments	925	-	925
Accrued Compensated Absences	150	-	150
Deferred Revenue	(95)	-	(95)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	70,433	1,225	71,658
CASH FLOWS FROM			
INVESTING ACTIVITIES			
Reinvestment of Certificates of Deposit	-	(1,225)	(1,225)
Redemption of Certificates of Deposit	-	1,565	1,565
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	-	340	340
CASH FLOWS FROM			
FINANCING ACTIVITIES			
Due to Replacement Fund	1,565	(1,565)	-
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	\$ 1,565	\$ (1,565)	\$ -

See accompanying notes and Independent Accountant's Review Report.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
 STATEMENT OF CASH FLOWS (CONT)
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Operating Fund	Replacement Fund	Total
NET INCREASE (DECREASE) IN CASH	\$ 71,998	\$ -	\$ 71,998
BEGINNING CASH AND CASH EQUIVALENTS	169,157	-	169,157
ENDING CASH AND CASH EQUIVALENTS	\$ 241,155	\$ -	\$ 241,155
SUPPLEMENTAL DISCLOSURE:			
Income Taxes Paid	\$ 1,583	\$ -	\$ 1,583
Interest Expense Paid	\$ -	\$ -	\$ -

See accompanying notes and Independent Accountant's Review Report.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 2,692 homes and 462 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, 2016

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 uncollectible accounts has not been established as management considers all accounts receivable to be collectible.

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, 2016

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

H. SUBSEQUENT EVENTS

Subsequent events were considered through August 8, 2017, 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 August 2017 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 \$1,225 leaving a balance of \$105,696 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 2016, the Association filed IRS Form 1120-H resulting in tax expense of \$1,585.

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 at as of December 31, 2016, 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 2013.

FAIR OAKS RANCH HOMEOWNERS ASSOCIATION, INC.
 NOTES TO FINANCIAL STATEMENTS (CONT.)
 DECEMBER 31, 2016

NOTE 5 -- UNIT BILLING FEES

The Association collected \$11,652 in unit billing fees for billing assessments on behalf of other homeowner associations within Fair Oaks Ranch.

NOTE 6 -- DEFERRED REVENUE

As of December 31, 2016, the Association collected \$3,000 in sponsorship income for a 2017 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:

Year Ending December 31	Payment
2017	\$ 2,568
2018	2,568
2019	2,568
2020	1,284
Total Payments	\$ 8,988

NOTE 8 -- 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, 2016
 (UNAUDITED)

The Board of Directors performed a reserve study in August 2017. 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 12/31/2016</u>
Boots Pavilion	32	\$ 85,540	\$ 13,345
Boots Playset	9	38,218	36,282
Vestal Playset	9	59,060	56,069
		<u>\$ 182,818</u>	<u>\$ 105,696</u>
Amount Ideally Funded as of December 31, 2016			<u>\$ 36,565</u>
Percent Ideally Funded			289.1%

Recommended Future Contributions Based on Original Projections:

2017	\$ 7,015
2018	\$ 7,015
2019	\$ 7,015