

***TROPHY RIDGE  
HOMEOWNERS ASSOCIATION, INC.***

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

***FOR THE YEAR ENDED  
DECEMBER 31, 2014***

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Armstrong, Vaughan & Associates, P.C.  
Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Trophy Ridge Homeowners Association, Inc.

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

We have audited the accompanying financial statements of the Trophy Ridge Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2014, and the related statements 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 audits 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.

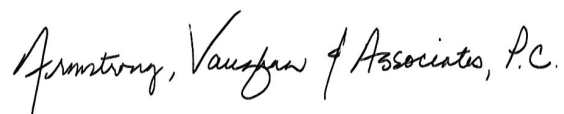
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trophy Ridge Homeowners Association, Inc. as of December 31, 2014 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 11 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.

September 29, 2015

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2014

	Operating Fund	Capital Fund	Replacement Fund	Total
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 74,950	\$ 54,629	\$ 7,335	\$ 136,914
Certificates of Deposit	120,089	-	111,539	231,628
Accounts Receivable (net)	20,162	-	-	20,162
Prepaid Insurance	4,679	-	-	4,679
<i>Total Current Assets</i>	219,880	54,629	118,874	393,383
<i>Property and Equipment:</i>				
Playground Area Canopy	24,434	-	-	24,434
Accumulated Depreciation	(22,895)	-	-	(22,895)
<i>Total Property and Equipment</i>	1,539	-	-	1,539
 <b>TOTAL ASSETS</b>	 <b>\$ 221,419</b>	 <b>\$ 54,629</b>	 <b>\$ 118,874</b>	 <b>\$ 394,922</b>
 <b>LIABILITIES AND FUND BALANCE</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 1,602	\$ -	\$ -	\$ 1,602
Prepaid Assessments	13,100	-	-	13,100
<i>Total Liabilities</i>	14,702	-	-	14,702
<i>Fund Balance:</i>				
Unrestricted	206,717	54,629	118,874	380,220
<i>Total Fund Balance</i>	206,717	54,629	118,874	380,220
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <b>\$ 221,419</b>	 <b>\$ 54,629</b>	 <b>\$ 118,874</b>	 <b>\$ 394,922</b>

The accompanying notes are an integral part of these statements.

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2014

	Operating Fund	Capital Fund	Replacement Fund	Total
<b>REVENUES</b>				
Member Assessments	\$ 244,757	\$ -	\$ 20,000	\$ 264,757
Builder Assessments	478	-	-	478
Swim Team Income	5,967	-	-	5,967
Late Fees	1,760	-	-	1,760
Pool Income	1,005	-	-	1,005
Setup Fees	900	-	-	900
NSF Fees	630	-	-	630
Interest Income	55	93	448	596
Other Income	449	-	-	449
<b>TOTAL REVENUES</b>	<u>256,001</u>	<u>93</u>	<u>20,448</u>	<u>276,542</u>
<b>EXPENSES</b>				
<i>Corporate Expenses:</i>				
Management Fees	30,381	-	-	30,381
Administrative Expenses	9,537	-	-	9,537
Insurance Expense	8,575	-	-	8,575
Professional Fees	5,058	-	-	5,058
Depreciation Expense	3,491	-	-	3,491
Bad Debt	3,219	-	-	3,219
Committee Activity	2,623	-	-	2,623
<i>Total Corporate Expenses</i>	<u>62,884</u>	<u>-</u>	<u>-</u>	<u>62,884</u>
<i>Common Area:</i>				
Pool Operations	36,069	-	-	36,069
Grounds Maintenance	35,640	-	-	35,640
Recreation Area	20,618	56,888	33,955	111,461
Utilities	20,099	-	-	20,099
Irrigation Maintenance	11,503	-	-	11,503
Swim Team Expenses	4,851	-	-	4,851
Signage	741	-	-	741
Other Expenses	951	-	-	951
<i>Total Common Area</i>	<u>130,472</u>	<u>56,888</u>	<u>33,955</u>	<u>221,315</u>
<b>TOTAL EXPENSES</b>	<u>193,356</u>	<u>56,888</u>	<u>33,955</u>	<u>284,199</u>
<b>Excess (Deficiency) of Revenues Over (Under) Expenses</b>	62,645	(56,795)	(13,507)	(7,657)
<b>Transfer Between Funds</b>	(33,126)	31,000	2,126	-
<b>BEGINNING FUND BALANCE</b>	<u>177,198</u>	<u>80,424</u>	<u>130,255</u>	<u>387,877</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 206,717</u>	<u>\$ 54,629</u>	<u>\$ 118,874</u>	<u>\$ 380,220</u>

The accompanying notes are an integral part of these statements.

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2014

	<u>Operating Fund</u>	<u>Capital 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	\$ 62,645	\$ (56,795)	\$ (13,507)	\$ (7,657)
Adjustments to reconcile excess (deficiency) of revenues over (under) expenses to net cash provided (used) by operating activities:				
Depreciation	3,491	-	-	3,491
(Increase) Decrease in:				
Accounts Receivable (Net) - Members	2,601	-	-	2,601
Prepaid Insurance	(183)	-	-	(183)
Increase (Decrease) in:				
Accounts Payable	(5,367)	-	-	(5,367)
Prepaid Assessments	(16,520)	-	-	(16,520)
<b>NET CASH PROVIDED (USED)</b>				
<b>BY OPERATING ACTIVITIES</b>	<u>46,667</u>	<u>(56,795)</u>	<u>(13,507)</u>	<u>(23,635)</u>
<b>CASH FLOWS FROM</b>				
<b>INVESTING ACTIVITIES</b>				
Maturity of Certificates of Deposits	-	-	120,088	120,088
Investment in Certificates of Deposit	(80,059)	-	(120,437)	(200,496)
<b>NET CASH PROVIDED (USED)</b>				
<b>BY INVESTING ACTIVITIES</b>	<u>(80,059)</u>	<u>-</u>	<u>(349)</u>	<u>(80,408)</u>
<b>CASH FLOWS FROM</b>				
<b>FINANCING ACTIVITIES</b>				
Transfer Between Funds	(33,126)	31,000	2,126	-
Interfund Borrowings	20,560	(20,560)	-	-
<b>NET CASH PROVIDED (USED)</b>				
<b>BY FINANCING ACTIVITIES</b>	<u>(12,566)</u>	<u>10,440</u>	<u>2,126</u>	<u>-</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(45,958)	(46,355)	(11,730)	(104,043)
<b>CASH AND CASH EQUIVALENTS</b>				
<b>AT BEGINNING OF YEAR</b>	<u>120,908</u>	<u>100,984</u>	<u>19,065</u>	<u>240,957</u>
<b>CASH AND CASH EQUIVALENTS</b>				
<b>AT END OF YEAR</b>	<u>\$ 74,950</u>	<u>\$ 54,629</u>	<u>\$ 7,335</u>	<u>\$ 136,914</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>				
Income Taxes Paid	\$ -	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -	\$ -

The accompanying notes are an integral part of these statements.

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

NOTE 1 -- NATURE OF ORGANIZATION

Trophy Ridge Homeowners Association, Inc. was chartered under the laws of the State of Texas on September 22, 2004. The primary purpose of this nonprofit association is to maintain and administer the common area of Trophy Ridge Subdivision, Unit 1. The Association is located in Bexar County, Texas, and at the end of 2014 consisted of 533 homeowner and builder lots.

NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ACCOUNTING METHOD/FUND ACCOUNTING

The Association maintains its books of account on 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.

Capital Fund -- This fund is used to account for financial resources designated for community improvements and construction of new common property.

Replacement Fund -- This fund is used to accumulate financial resources designated for major repairs and replacement.

B. MEMBER ASSESSMENTS

Association membership consists of homeowners and builder/developers. Assessments are fixed annually but due quarterly. In addition to the annual assessments, homeowners are also responsible for any special assessments deemed necessary by the Board and for a one-time setup fee of \$150. Assessments not received within thirty (30) days after the due date shall bear interest from the due date at the highest rate of interest permitted by law, and the Association may bring an action at law against the Owner to pay the same or to foreclose the lien against the lot. The assessments are secured by a continuing lien on each property. The assessments shall be used to maintain the common areas and any real property that may be added. That includes landscaping, irrigation systems, and insurance. The Association's policy for charging off uncollectible receivables is determined on a case by case basis. The Association vigorously pursues collection of receivables until ownership has changed through sale or foreclosure and the Association may no longer pursue collection of the previous owner.



TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2014

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

B. MEMBER ASSESSMENTS (CONT.)

Delinquent homeowners who are qualified, or who receive board approval, may establish a written payment plan. Under a payment plan, an owner owing \$300 or less may pay the balance in three equal monthly installments; owners owing more than \$300 may pay 25% of the balance in the first month and the remainder in equal monthly installments over the next six months. The Board may approve alternate plans at its discretion. Unpaid assessments which are covered by a payment plan are not subject to penalties, but continue to accrue interest and are not relieved of responsibility for related administrative costs.

The Association has recorded an allowance for uncollectible accounts based on management's estimate as of December 31, 2014 in the amount of \$8,878.

Revenue from assessments is recognized in the period of assessment. Payments received in advance of the period of assessment are deferred and carried on the balance sheet as prepaid assessments.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the statement of cash flows includes amounts in checking and money market accounts.

D. PROPERTY, EQUIPMENT AND DEPRECIATION

In accordance with industry standards, real property and common areas acquired from the developer/builder and related improvements to such property are not reflected on the Association's financial statements. The common areas include, but are not limited to landscaping, walls, monuments, and entry area. Personal property purchased with Association funds, to which the Association holds title, will be capitalized at cost and depreciated over their estimated useful lives, using the straight-line method of depreciation. The estimated useful life for the playground canopy is 7 years.

E. FISCAL YEAR

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

F. 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 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.

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2014

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

G. SUBSEQUENT EVENTS

Subsequent events are considered through September 29, 2015, which is the date 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 major repairs and replacement of Common Area components. This reserve can be funded by regular and special assessments. Accumulated funds should be accounted for in separate certificates of deposit and/or savings accounts.

In 2014, Armstrong, Vaughan & Associates, P.C. assisted the Board of Directors in conducting a reserve study to determine the information necessary to estimate the remaining useful lives and the replacement costs of the components of common property. The table included in the Required Supplementary Information on Future Major Repairs and Replacements is based on this study.

In 2014, the Association increased the replacement fund by \$22,574 and spent \$33,955 on major repairs and replacements, leaving a balance of \$118,874 in the replacement fund. Because funding is based on estimates, actual needs may vary significantly from the study and the 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, subject to membership approval, 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 purposes, (i.e., the acquisition, construction, management, maintenance and care of Association property). The net nonexempt income from earned interest and nonmember fees are taxed at 15% or 30% by the federal government, dependent upon certain filing elections made. For 2014, the Association filed an IRS Form 1120-H resulting in a tax expense of zero. Membership income is exempt from taxation if certain elections are made.

Accounting principles generally accepted in the United States of America require the 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 that as of December 31, 2014, 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 2011.

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
NOTES TO FINANCIAL STATEMENTS (CONT.)  
DECEMBER 31, 2014

NOTE 5 -- LITIGATION

Management is not aware of any threatened or pending litigation against the Association.

REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)

TROPHY RIDGE HOMEOWNERS ASSOCIATION, INC.  
 FUTURE MAJOR REPAIRS & REPLACEMENTS  
 DECEMBER 31, 2014

Armstrong, Vaughan & Associates, P.C. assisted the Board of Directors in conducting a reserve study in 2014, using a database of current construction costs and material lives from authoritative literature, to estimate the remaining useful lives and the replacement costs of the components of common property. Future replacement costs were computed using current inflation rates to the time of replacement; however, the estimated costs below are based on the costs at the time of that study and 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.

Component	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Components of Fund Balance at 12/31/2014
Parking Lot	12	\$ 14,842	\$ -
Roofs	12	15,000	6,896
Fences	10-17	87,089	8,090
Lighting	10-12	5,520	180
Plumbing	4-17	6,300	2,400
Security - Card Reader	4	1,600	1,600
Water Heater	4	384	384
Irrigation System	4-22	8,425	1,225
Park & Playground Equipment	3-15	117,265	25,265
Pool Equipment	2-32	455,447	72,834
Grill Pad Area	13	14,500	-
Entrance Monument and Letters	22	47,000	-
Doors	12-14	3,152	-
		<u>\$ 776,524</u>	<u>\$ 118,874</u>

Reserve Study Ideal Balance at Year End

\$ 231,011

Percent of Ideal Balance on Hand

51.5%

Reserve Study Recommended Future Contributions:

(Based on Original Projections)

2015 \$ 54,702

2016 \$ 49,752

2017 \$ 48,284