

HARRIS RIDGE OWNERS ASSOCIATION, INC.

AUDITED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

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YEAR ENDED DECEMBER 31, 2007

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ERICKSON DEMEL & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

7800 N MOPAC, SUITE 105

AUSTIN, TEXAS 78759

Board of Directors
Harris Ridge Owners Association, Inc.
Austin, Texas

Independent Auditor's Report

We have audited the accompanying balance sheet of Harris Ridge Owners Association, Inc. as of December 31, 2007 and the related statements of revenues and 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. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the accounts 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note D, the Association has not estimated the remaining lives and replacement costs of the common areas and, therefore, has not presented estimates of future costs of major repairs and replacements that will be required in the future, which 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harris Ridge Owners Association, Inc. at December 31, 2007 and the results of operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Erickson Demel + Co., P.C.

Certified Public Accountants

September 12, 2008

HARRIS RIDGE OWNERS ASSOCIATION, INC.

BALANCE SHEET

DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 124,691
Short Term Investments	34,315
Account Receivable, Net	4,090
Prepaid Assets	2,681
Total Current Assets	<u>165,777</u>

FIXED ASSETS

Capital Improvements	21,714
Pool Improvements	42,201
Land	65,000
	<u>128,915</u>
Accumulated Depreciation	30,578
	<u>98,337</u>

TOTAL ASSETS

\$ 264,114

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES

Accounts Payable	\$ 4,825
Prepaid Assessments	11,558
Income Taxes Payable	4,814
Deposits Held	4,675
Total Current Liabilities	<u>25,872</u>

FUND BALANCE

238,242

TOTAL LIABILITIES AND FUND BALANCE

\$ 264,114

See notes to financial statements

HARRIS RIDGE OWNERS ASSOCIATION, INC.
STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND BALANCE
YEAR ENDED DECEMBER 31, 2007

REVENUES

Regular Assessments	\$ 94,435
Fines, Late Fees, and Other	14,133
Interest Income	2,709
	111,277

EXPENSES

Maintenance – General	1,480
Maintenance – Landscape	23,262
Maintenance – Pool	21,515
Property Taxes	912
Utilities	11,976
Insurance	5,811
Management Fees	26,385
Professional Fees	4,988
Meetings and Social Events	975
Office and Administrative	2,588
Miscellaneous	123
Bad Debt	2,550
Depreciation	2,203
Total Expenses	104,768

Income From Operations	6,509
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OTHER INCOME

Gain on Sale of Lots	14,393
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Excess of Revenues and Expenses Before Income Tax	20,902
Income Tax Expense	4,814

Excess of Revenues Over Expenses	16,088
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FUND BALANCE

Balance – Beginning of Year	222,154
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Balance – End of Year	\$ 238,242
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See notes to financial statements

HARRIS RIDGE OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2007

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of Revenues Over Expenses	\$ 16,088
Depreciation	2,203
Bad Debt	2,550
Gain on Sale of Lots	(14,393)
Change in Operating Assets and Liabilities:	
Accounts Receivable	(2,708)
Accounts Payable	1,737
Prepaid Assessments	3,860
Income Taxes Payable	4,433
Deposits Held	575
Net Cash Provided by Operating Activities	<u>14,345</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of Short-Term Investments	(35,177)
Proceeds from Sale of Assets	79,393
Proceeds from Short-Term Investments	33,488
Purchase of Capital Improvements	(1,679)
Net Cash Provided by Investing Activities	<u>76,025</u>

Net Increase in Cash and Cash Equivalents 90,370

Cash and Cash Equivalents at Beginning of Year 34,321

Cash and Cash Equivalents at End of Year \$ 124,691

Supplemental Cash Flow Information:

Income Taxes Paid \$ 381

See notes to financial statements

HARRIS RIDGE OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

A. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Harris Ridge Owners Association, Inc. (Association), was organized as a not-for-profit corporation on July 22, 1986 under the Texas Non-Profit Corporation Act. The Association was formed to operate, manage, maintain and promote the common areas of Harris Ridge subdivision in Austin, Travis County, Texas. The subdivision consists of 456 residential lots owned by homeowners and developers. The Association also owns two unimproved lots. The Association is responsible for paying all operating expenses of the Association's common area. The Association is not responsible for leasing, property taxes or payment of debt service related to the mortgage financing of the individual units.

Basis of Accounting

The Association prepares its financial statements on the accrual basis of accounting.

Recognition of Assets and Depreciation Policy

The Association policy for recognizing common property as assets in its balance sheet is to recognize; (a) common personal property, and (b) real property to which it has title and can be disposed of for cash while retaining the proceeds or to generate significant cash flows from members on the basis of usage or from nonmembers. Depreciation is computed using the straight-line method over the following estimated useful lives of the common property.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity date of three months or less to be cash equivalents.

Short-Term Investments

The Association considers investments which have maturities of more than three months and less than one year to be short-term investments. These investments are classified as held to maturity, and are stated at amortized cost which approximates fair value. Income related to these investments is reported as a component of interest income. Short-term investments consisted of certificates of deposit at December 31, 2007, which had maturities through July 2008.

HARRIS RIDGE OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fair Value of Financial Instruments

The Company believes that the carrying amount of its financial instruments, including debt, approximates fair value. Fair value is estimated based on quoted market prices for similar instruments.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Association to concentrations of credit and market risk consist primarily of cash equivalents. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited to any one institution. The Association has not experienced any losses on its cash equivalents.

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at December 31, 2007:

Checking Accounts	\$ 95,902
Money Market Account	<u>28,789</u>
	<u>\$ 124,691</u>

C. OWNERS' ASSESSMENTS

All owners of the units are obligated to pay assessments imposed by the Association to meet common expenses.

The annual budget and assessments of the owners are determined by the Board of Directors and are approved by the owners. The Association retains any excess operating funds at the end of the operating year for use in future periods.

HARRIS RIDGE OWNERS ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

D. FUTURE MAJOR REPAIRS AND REPLACEMENTS

In addition to the regular assessments, the Association's governing documents allow the Board of Directors to levy special assessments for the purpose of paying for major repairs and replacements to the common area of the Association. A study has not been conducted to estimate the remaining useful lives and replacement costs of the components of the common area. However, information obtained by management on certain major repairs and replacements are presented to the Board and, if authorized, included in the budget and, as such, included in the regular assessment. Actual expenditures may vary from estimates, and the variations may be material. If additional funds are needed, the Association has the authority to increase regular assessments, pass special assessments or delay major repairs and replacements until funds are available.

E. INCOME TAXES

The Association elects on an annual basis to file its tax return as either a regular corporation or as a homeowners association under Section 528 of the Internal Revenue Code. During 2007, the Association elected to file under Section 528 of the Internal Revenue Code.

F. ASSESSMENTS RECEIVABLE

The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are three months in arrears. As of December 31, 2007, the Association had assessments receivable and other charges of \$8,393 of which \$5,974 were delinquent. The Association provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of clients to meet their obligations. It is the Association's policy to charge off uncollectible accounts receivable when management determines the receivables will not be collected. As of December 31, 2007, the allowance for bad debts was \$4,550.

G. SUBSEQUENT EVENTS

In June 2008, the Association approved a change in property management companies, which became effective in July 2008.