

DeVOLT and COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 803367

DALLAS, TEXAS 75380-3367

OFFICE: (972) 980-4315

FAX: (972) 702-0174

david\_devoltandco@sbcglobal.net

NOV 09 2011

To The Board of Directors  
Northcrest Homeowners Association, Inc.

May 26, 2011

We have audited the financial statements of the Northcrest Homeowners Association, Inc. for the year ended December 31, 2010, and have issued our report thereon dated May 26, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you executed January 28, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management (the Board of Directors) is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Northcrest Homeowners Association, Inc. are described in Footnote 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2010. We noted no transactions entered into by the association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management (the Board of Directors) and are based on management's (the Board of Directors') knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's (the Board of Directors') estimate of the allowance for doubtful accounts is based on historical revenue, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the

allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The Supplementary Information dealing with the amounts allocated to the replacement fund for the year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from the Board of Directors that are included in our management representation letter dated May 26, 2011.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Northcrest Homeowners Association, Inc. board of directors and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*DeVOLT and Company, P.C.*

DeVOLT and Company, P.C.  
Dallas, Texas

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To the Board of Directors  
Northcrest Homeowners Association, Inc.

In planning and performing our audit of the financial statements of the Northcrest Homeowners Association, Inc. as of and for the year ended December 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Northcrest Homeowners Association, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management (the board of directors) or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A fundamental concept in a good system of internal control is the separation of duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. If the separation of duties is inadequate, there is a resulting danger that intentional fraud or unintentional errors could occur and not be detected. Although the size of the entity's accounting staff might make complete adherence to this concept more difficult, we believe that adequate steps have been taken to segregate incompatible duties.

Management (the board of directors) is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles.

At times, management (the board of directors) may choose to outsource certain accounting functions due to cost or training considerations. Such accounting functions and service providers must be governed by the control policies and procedures of the entity. Management (the board of directors) is as responsible for outsourced functions performed by a service provider as it would be for such functions performed internally.

Specifically, management (the board of directors) is responsible for management decisions and functions: for designating an individual with suitable skill, knowledge, or experience to oversee any outsourced services; and for evaluating the adequacy and results of those services and accepting responsibility for them.

As part of the audit, management (the board of directors) requested us to prepare a draft of your financial statements, including the related notes to the financial statements. Management (the board of directors) reviewed, approved, and accepted responsibility for those financial statements prior to their issuance; however, management (the board of directors) did not perform a detailed review of our work papers underlying the financial statements.

The existence of significant deficiencies or material weaknesses may already be known to management (the board of directors) and may represent a conscious decision by management (the board of directors) or those charged with governance to accept that degree of risk because of cost or other considerations. Management (the board of directors) is responsible for making decisions concerning costs and the related benefits. We are responsible for communicating significant deficiencies and material weaknesses in accordance with professional standards, regardless of management (the board of directors)'s decisions.

This communication is intended solely for the information and use of the association's board of directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*DeVult and Company, P.C.*

DeVult and Company, P.C.  
Dallas, Texas

May 26, 2011

NORTHCREST HOMEOWNERS ASSOCIATION, INC.

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Northcrest Homeowners Association, Inc.  
Carrollton, Texas

We have audited the accompanying Balance Sheet of the Northcrest Homeowners Association, Inc. at December 31, 2010 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. 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northcrest Homeowners Association, Inc. at December 31, 2010 and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Supplementary Information on Future Major Repairs and Replacements on page 8 is not a required part of the financial statements of the Northcrest Homeowners Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Very truly yours,

*DeVOLT and Company, P.C.*

DeVOLT and Company, P.C.  
Certified Public Accountants  
May 26, 2011

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
BALANCE SHEET  
DECEMBER 31, 2010

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
<b>CURRENT ASSETS</b>			
Cash, including interest-bearing deposits	\$ 12,710	\$ 95,760	\$ 108,470
Assessments receivable, less allowance for doubtful accounts of \$ 7,848	14,064		14,064
Prepaid insurance	996		996
<b>TOTAL CURRENT ASSETS</b>	<u>27,770</u>	<u>95,760</u>	<u>123,530</u>
<b>PROPERTY AND EQUIPMENT, AT COST</b>			
Land	760		760
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>760</u>	-	<u>760</u>
<b>TOTAL ASSETS</b>	<u>\$ 28,530</u>	<u>\$ 95,760</u>	<u>\$ 124,290</u>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 1,281	\$	\$ 1,281
Assessments received in advance	13,663		13,663
<b>TOTAL CURRENT LIABILITIES</b>	<u>14,944</u>	-	<u>14,944</u>
<b>TOTAL LIABILITIES</b>	<u>14,944</u>	-	<u>14,944</u>
<b>FUND BALANCES / (DEFICITS)</b>	<u>13,586</u>	<u>95,760</u>	<u>109,346</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 28,530</u>	<u>\$ 95,760</u>	<u>\$ 124,290</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2010

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 222,600	\$ 75,000	\$ 297,600
Late/collection charges	12,021		12,021
Foreclosure unit income	9,300		9,300
Rental / vending income	885		885
Miscellaneous income	111		111
Interest income		750	750
<b>TOTAL REVENUES</b>	<u>244,917</u>	<u>75,750</u>	<u>320,667</u>
OPERATING EXPENSES			
Repairs - exterior	58,685		58,685
Landscaping & lawn maintenance	39,763		39,763
Repairs - foundation	31,413		31,413
Management fees	28,490		28,490
Repairs - fence / gate / walls	27,120		27,120
Repairs - garage / carport	18,625		18,625
Utilities expense	15,138		15,138
Repairs - sprinklers	6,787		6,787
Legal & professional fees	6,501		6,501
Office supplies & admin. costs	5,772		5,772
Porter service	5,438		5,438
Pool maintenance & repairs	5,196	17,787	22,983
Insurance expense	4,030		4,030
Repairs - roofs	3,802		3,802
Bad debt expense	3,319		3,319
Repairs - other	3,015		3,015
Cable / telephone expense	1,056		1,056
Taxes - real property	19		19
<b>TOTAL OPERATING EXPENSES</b>	<u>264,169</u>	<u>17,787</u>	<u>281,956</u>
EXCESS REVENUES / (EXPENSES)			
FROM OPERATIONS	<u>\$ (19,252)</u>	<u>\$ 57,963</u>	<u>\$ 38,711</u>
EXCESS REVENUES / (EXPENSES)	<u>\$ (19,252)</u>	<u>\$ 57,963</u>	<u>\$ 38,711</u>
BEGINNING FUND BALANCE / (DEFICIT)	30,625	40,010	70,635
INTER-FUND TRANSFERS	2,213	(2,213)	-
<b>ENDING FUND BALANCE / (DEFICIT)</b>	<u>\$ 13,586</u>	<u>\$ 95,760</u>	<u>\$ 109,346</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.



NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Excess revenues/ (expenses)	\$ (19,252)	\$ 57,963	\$ 38,711
Add: Depreciation	-	-	-
Decrease / (Increase) in:			
Accounts receivable	1,832	-	1,832
Prepaid expenses	35	-	35
Increase / (Decrease) in:			
Accounts payable	221	-	221
Prepaid assessments	2,552	-	2,552
Miscellaneous payable	(670)	-	(670)
<b>NET CASH PROVIDED/ (USED) BY OPERATIONS</b>	<u>(15,282)</u>	<u>57,963</u>	<u>42,681</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Inter-fund transfers	<u>2,213</u>	<u>(2,213)</u>	<u>-</u>
<b>NET CASH PROVIDED/ (USED) BY FINANCING</b>	<u>2,213</u>	<u>(2,213)</u>	<u>-</u>
<b>NET INCREASE/ (DECREASE) IN CASH</b>	<u>(13,069)</u>	<u>55,750</u>	<u>42,681</u>
CASH BALANCE, DECEMBER 31, 2009	<u>25,779</u>	<u>40,010</u>	<u>65,789</u>
CASH BALANCE, DECEMBER 31, 2010	<u>\$ 12,710</u>	<u>\$ 95,760</u>	<u>\$ 108,470</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Cash paid during the year for:			
Federal Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

FOOTNOTE 1: The Northcrest Homeowners Association, Inc. is a Texas non-profit corporation incorporated May 3, 1972. The purpose of the Association is to operate and maintain the Northcrest homeowners project. The project consists of 155 townhomes and associated common elements located in Carrollton, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through May 26, 2011, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for the Northcrest Homeowners Association, Inc. are maintained on the accrual basis of accounting.

**FUND ACCOUNTING:** The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction on the use of financial resources, the Association maintains its accounts using fund accounting. 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 future major repairs and replacements.

**CASH AND CASH EQUIVALENTS:** For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

**REVENUES:** Revenues are accrued each month as the member assessments become due. Both the rate for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

**EXPENDITURES:** Expenses are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures exceeding \$ 500 must be approved by the President, Treasurer, or other member of the Board. All large expenditures, projects and services are contracted using competitive bidding policies. The Board of Directors has the final approval on all contracts.

See the accompanying Independent Auditors' Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

FOOTNOTE 3: (CONTINUED):

ACCOUNTS RECEIVABLE: Monthly maintenance assessments from the homeowners are accrued each month as they become due to the Association. The Association has a lien right against each unit until all dues or assessments are paid, such liens being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economic conditions. At December 31, 2010, the allowance for doubtful accounts of \$ 7,848 represents approximately 35.81 % of the total accounts receivable.

PROPERTY AND EQUIPMENT: Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes personal property, if any, at cost and depreciates it using the straight-line method, over the applicable useful lives.

FEDERAL INCOME TAX: The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners Associations (Section 528) or Sub-Chapter A, dealing with corporations in general. Section 528 would impose a tax rate of 30% to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Sub-Chapter A imposes a graduated tax on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2010, the Association has elected to file under Section 528. Income tax for the year was \$ -0-.

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.

See the accompanying Independent Auditors' Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance, and other services. These contracts are generally for a term of one year, and may generally be canceled by either party giving 30 day's notice.

See the accompanying Independent Auditors' Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.  
 SUPPLEMENTARY INFORMATION ON FUTURE  
 MAJOR REPAIRS AND REPLACEMENTS  
 FOR THE YEAR ENDED DECEMBER 31, 2010

REPLACEMENT FUND: The Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. The Board of Directors, however, has chosen to establish a replacement fund and to accumulate funds for the estimated costs of future major repairs and replacements. For the year ended December 31, 2010, the Association added approximately \$ 75,000, before earnings of \$ 750 to the replacement fund. Accumulated funds, which aggregate approximately \$ 95,760 at December 31, 2010, are held in separate accounts and are generally not available for operating purposes.

In 1995, the Association conducted an informal study to fund future capital repairs and replacements. The estimated replacement costs and useful lives of the components of the property have been arrived at by the Associations' Board of Directors.

COMPONENTS	REPLACE COST	REM LIFE	CURRENT FUNDING	ANNUAL FUNDING
Fences	\$ 146,500	0	\$ 25,000	\$ 74,359
Pool-Replaster	1,400	0	750	-0-
Roofs	217,000	0	49,087	31,000
Drainage Repairs	45,000	0	10,000	-0-
Ext. Painting/Wood Repair	70,000	0	10,923	70,000
<b>TOTALS</b>	<u>\$ 479,900</u>		<u>\$ 95,760</u>	<u>\$ 175,359</u>

If cash amounts are not sufficient to fund future major repairs and replacements, the Association has the right to increase regular assessments or levy special assessments, or it may postpone needed repairs until funds are available.

See the accompanying Independent Auditors' Report.