

NORTHCREST HOMEOWNERS ASSOCIATION, INC.

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DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Northcrest Homeowners Association, Inc., which comprise the Balance Sheet as of December 31, 2012, 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.

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.

Auditors' 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 auditors' 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 entity'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 entity'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 Northcrest Homeowners Association, Inc. as of December 31, 2012, and the results of its operations, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 9 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.

Very truly yours,

DeVult and Company, P.C.

DeVult and Company, P.C.
Certified Public Accountants
March 28, 2013

NORTHCREST HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2012

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash, including interest-bearing deposits	\$ 41,600	\$ 16,777	\$ 58,377
Assessments receivable, less allowance for doubtful accounts of \$ 5,061	24,208		24,208
Prepaid insurance	992		992
Prepaid expense - other	19		19
TOTAL CURRENT ASSETS	<u>66,819</u>	<u>16,777</u>	<u>83,596</u>
PROPERTY AND EQUIPMENT, AT COST			
Land	760		760
PROPERTY AND EQUIPMENT, NET	<u>760</u>	-	<u>760</u>
TOTAL ASSETS	<u>\$ 67,579</u>	<u>\$ 16,777</u>	<u>\$ 84,356</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 2,001	\$	\$ 2,001
Assessments received in advance	13,831		13,831
TOTAL CURRENT LIABILITIES	<u>15,832</u>	-	<u>15,832</u>
TOTAL LIABILITIES	<u>15,832</u>	-	<u>15,832</u>
FUND BALANCES / (DEFICITS)	<u>51,747</u>	<u>16,777</u>	<u>68,524</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 67,579</u>	<u>\$ 16,777</u>	<u>\$ 84,356</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, 2012

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 316,200	\$	\$ 316,200
Late/collection charges	6,709		6,709
Rental / vending income	990		990
Interest income	8	422	430
TOTAL REVENUES	<u>323,907</u>	<u>422</u>	<u>324,329</u>
OPERATING EXPENSES			
Repairs - foundation	84,550		84,550
Landscaping & lawn maintenance	44,950		44,950
Repairs - exterior	39,110		39,110
Management fees	37,359		37,359
Repairs - plumbing	33,965		33,965
Repairs - fence / gate / walls	30,104		30,104
Utilities expense	16,476		16,476
Repairs - garage / carport	8,706		8,706
Porter service	6,038		6,038
Pool maintenance & repairs	5,629		5,629
Repairs - sprinklers	4,781		4,781
Insurance expense	4,140		4,140
Office supplies & admin. costs	4,023		4,023
Legal & professional fees	3,939		3,939
Repairs - other	3,302		3,302
Bad debt expense	2,975		2,975
Cable / telephone expense	1,026		1,026
Taxes - real property	22		22
TOTAL OPERATING EXPENSES	<u>331,095</u>	-	<u>331,095</u>
EXCESS REVENUES / (EXPENSES)			
FROM OPERATIONS	\$ (7,188)	\$ 422	\$ (6,766)
EXCESS REVENUES / (EXPENSES)	<u>\$ (7,188)</u>	<u>\$ 422</u>	<u>\$ (6,766)</u>
BEGINNING FUND BALANCE / (DEFICIT)	23,935	51,355	75,290
INTER-FUND TRANSFERS	35,000	(35,000)	-
ENDING FUND BALANCE / (DEFICIT)	<u>\$ 51,747</u>	<u>\$ 16,777</u>	<u>\$ 68,524</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, 2012

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
CASH FLOW FROM OPERATING ACTIVITIES:			
Excess revenues/ (expenses)	\$ (7,188)	\$ 422	\$ (6,766)
Add: Depreciation	-	-	-
Decrease / (Increase) in:			
Accounts receivable	(1,427)	-	(1,427)
Prepaid expenses	192	-	192
Increase / (Decrease) in:			
Accounts payable	(4,652)	-	(4,652)
Prepaid assessments	522	-	522
NET CASH PROVIDED/ (USED) BY OPERATIONS	<u>(12,553)</u>	<u>422</u>	<u>(12,131)</u>
CASH FLOW FROM FINANCING ACTIVITIES:			
Inter-fund transfers	<u>35,000</u>	<u>(35,000)</u>	<u>-</u>
NET CASH PROVIDED/ (USED) BY FINANCING	<u>35,000</u>	<u>(35,000)</u>	<u>-</u>
NET INCREASE/ (DECREASE) IN CASH	<u>22,447</u>	<u>(34,578)</u>	<u>(12,131)</u>
CASH BALANCE, DECEMBER 31, 2011	<u>19,153</u>	<u>51,355</u>	<u>70,508</u>
CASH BALANCE, DECEMBER 31, 2012	<u>\$ 41,600</u>	<u>\$ 16,777</u>	<u>\$ 58,377</u>
SUPPLEMENTAL DISCLOSURE:			
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, 2012

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 March 28, 2013, 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, 2012

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. Any excess assessments at year end are retained by the Association for use in the succeeding year.

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, 2012, the allowance for doubtful accounts of \$ 5,061 represents approximately 24.25 % 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, 2012, 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, 2012

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, 2012

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, 2012, the Association added \$ -0-, before earnings of \$ 422 to the replacement fund. Accumulated funds, which aggregate approximately \$ 16,777 at December 31, 2012, 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	\$ -0-	\$ 74,359
Pool-Replaster	1,400	0	750	-0-
Roofs	217,000	0	-0-	31,000
Drainage Repairs	45,000	0	10,000	-0-
Ext. Painting/Wood Repair	70,000	0	6,027	70,000
TOTALS	\$ 479,900		\$ 16,777	\$ 175,359

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.