

Northcrest Homeowners Association, Inc.
(A Texas Non-Profit Corporation)

Financial Statement

December 31, 2017

Canady & Canady P. C.

Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors and Members
Northcrest Homeowners Association, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Northcrest Homeowners Association, Inc., which comprise the balance sheet as of December 31, 2017, and related statement of revenues, expenses and changes in fund balances and cash flows for the year then ended.

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 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 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 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.

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Independent Auditor's Report (Continued)

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northcrest Homeowners Association, Inc. as of December 31, 2017, 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.

Other Matters

Management has omitted the information about the estimates of future costs of major repairs and replacement that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.

Dallas, Texas

May 14, 2018

Northcrest Homeowners Association, Inc.
Balance Sheet
December 31, 2017

	Operating Fund	Replacement Fund	Total
Assets			
Cash and cash equivalent	\$ 39,551	\$ 78,443	\$ 117,994
Accounts receivable, net of allowance for doubtful account is \$3,000	12,092		12,092
Prepaid expense	540		540
Fixed assets	760		760
	<u>760</u>	<u>78,443</u>	<u>760</u>
Total Assets	<u>\$ 52,943</u>	<u>\$ 78,443</u>	<u>\$ 131,386</u>
 Liabilities and Fund Balance			
Accounts payable	\$ 1,927	\$ -	\$ 1,927
Prepaid assessment	13,572		13,572
Other payable	150		150
	<u>15,649</u>	<u>\$ -</u>	<u>15,649</u>
Total Liabilities	15,649	\$ -	15,649
Fund Balance	37,294	78,443	115,737
	<u>37,294</u>	<u>78,443</u>	<u>115,737</u>
Total Liabilities and Fund Balance	<u>\$ 52,943</u>	<u>\$ 78,443</u>	<u>\$ 131,386</u>

See accompanying notes to financial statement.

Northcrest Homeowners Association, Inc.
Statement of Revenues, Expenses and Changes in Fund Balance
For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Revenues			
Assessment	\$ 299,800	\$ 35,000	\$ 334,800
Other income	11,096		11,096
Interest income	16	145	161
Total Revenues	<u>310,912</u>	<u>35,145</u>	<u>346,057</u>
Expenses			
Repairs and maintenance	166,987		166,987
Landscaping	71,107		71,107
Management fee	33,743		33,743
Utilities	15,870		15,870
Bad debt	7,902		7,902
Office and administrative	4,002		4,002
Insurance	3,827		3,827
Professional fee	1,618		1,618
Total Expenses	<u>305,056</u>	<u>-</u>	<u>305,056</u>
Excess of Revenues over Expenses	5,857	35,145	41,002
Fund Balance			
Beginning of year	19,195	43,298	62,492
Prior period adjustments	12,243		12,243
End of year	<u>\$ 37,294</u>	<u>\$ 78,443</u>	<u>\$ 115,737</u>

See accompanying notes to financial statement.

Northcrest Homeowners Association, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

	Operating Fund	Replacement Fund	Total
Cash Flows From Operating Activities			
Excess of Revenue over Expenses	\$ 5,857	\$ 35,145	\$ 41,002
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Prior period adjustments	12,243		12,243
Bad debt	7,902		7,902
Decrease in:			
Assessments receivable	1,082.99		1,083
Prepaid expense	448		448
Increase (decrease) in:			
Accounts payable	1,337		1,337
Prepaid assessment	(1,014)		(1,014)
Other payable	(200)		(200)
Net cash provided by operating activities	<u>27,655</u>	<u>35,145</u>	<u>62,800</u>
Net increase in cash and cash equivalents	27,655	35,145	62,800
Cash and Cash Equivalents			
Beginning of year	<u>11,896</u>	<u>43,298</u>	<u>55,194</u>
End of year	<u><u>\$ 39,551</u></u>	<u><u>\$ 78,443</u></u>	<u><u>\$ 117,994</u></u>
Supplemental Disclosures:			
Income Tax Paid	\$ -	\$ -	\$ -
Interest Paid	\$ -	\$ -	\$ -

See accompanying notes to financial statement.

Northcrest Homeowners Association, Inc.
Notes to Financial Statement
December 31, 2017

Note 1 – Organization

Northcrest Homeowners Association, Inc. (the Association) is a Texas non-profit corporation incorporated on May 3, 1972 for the purpose of promoting the recreation, health, safety, and welfare of the owners in the properties and for the improvements and maintenance of the common area. The Association is comprised of 155 lots in Dallas County, Texas.

Note 2 – Date of Management’s Review

In preparing the financial statements, the Association has evaluated the events and transactions for potential recognition or disclosure through May 14, 2018, the date the financial statements were available to be issued.

Note 3 – Summary of Significant Accounting Policies

Fund Accounting

The Association uses fund accounting which requires funds allocated for future major repairs and replacements be classified separately from funds available for general operations. 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 account for financial resources designated for future repairs and replacements.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby income is recognized when earned and costs and expenses are recognized when the obligations are incurred.

Cash and Cash Equivalents

Cash includes cash and cash equivalents, defined as liquid investments with maturities of three months or less.

The Association maintains its cash balances in a financial institution which is a member of FDIC. Accounts at the institution are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of December 31, 2017, the cash balance is fully insured by FDIC.

Estimates

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Norcrest Homeowners Association, Inc.
Notes to Financial Statement
December 31, 2017

Note 3 – Summary of Significant Accounting Policies (Continued)

Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from unit members. Any excess assessments at year end are retained by the Association for use in the succeeding year. Income received in advance is deferred and amortized over the period to which it relates.

Assessments Received in Advance

Assessments received in advance at the balance sheet date represent payments received from association members during the current fiscal year, which relate to maintenance assessments for the following fiscal year.

Fair Value of Financial Instruments

The Association's financial instruments are cash and cash equivalents, accounts receivable, prepaid expenses and accounts payable. The recorded values of these financial instruments approximate their fair values based on their short-term nature.

Property and Equipment

Real property and common areas are acquired from the developer and related improvements to such property are not reflected on the Association's financial statements. Those properties are owned by the individual unit owners in common and not by the Association. The Association capitalizes significant real and personal property to which it has title or other evidence of ownership at cost. As of December 31, 2017, the Association capitalized land as of \$760.

Note 4 – Assessments Receivable

Assessments receivable from the homeowners consists of maintenance assessments billed prior to December 31, 2017. Accounts are deemed delinquent when payment is not received within 30 days of billing. Accounts are charged to operations when they are deemed uncollectible based upon periodic reviews of aging and collections.

Note 5 – Federal Income Tax

The Association is subject to federal income tax and must file an annual tax return. It has the option to file as a regular corporation, subject to general corporate tax provisions, or it can elect to file as a corporation pursuant to Internal Code Section 528. Under Section 528, the Association is subject to specific rulings and regulations applicable to nonexempt membership organizations. This section imposes a flat 30% tax on the Associations' "non-exempt function" income which consists primarily of interest income. The Association evaluates both options and makes an annual election in order to minimize its income taxes. For year ended December 31, 2017, the Association elected to file form 1120H, and the tax liability is \$0.

Northcrest Homeowners Association, Inc.
Notes to Financial Statement
December 31, 2017

Note 5 – Federal Income Tax (Continued)

The Association adopted the accounting for uncertainty for income tax guidance, which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Association's tax filings are subject to audit by various taxing authorities.

The Association's tax filings are subject to audit. The Association's federal income tax returns for 2015, 2016, and 2017 remain open to examination by the Internal Revenue Service. In evaluating the Association's tax provisions and accruals, the Association believes that its estimates are appropriate based on current facts and circumstances.

Note 6 – Future Major Replacements

The association has not conducted a study to determine the remaining useful lives of the components of common property and current estimates of costs of major repairs and replacements that will be required in the future, nor has the board of director developed a plan to fund those needs. Accordingly, the association is unable to disclose that information as required by the generally accepted accounting principles. Actual expenditure may be greater than funds accumulated for those purposes. When replacement funds are needed for those purposes, the Association may increase maintenance assessments, delay replacement until funds are available, or levy special assessment. The effect on future assessments has not been determined at this time.

Note 7 – Related Party

The management company performed repair work. The management company received approximately \$50,000 for such services during 2017.

The management company performed landscaping services. The management company received approximately \$1,700 for such services during 2017.

The management company performed porter services. The management company received approximately \$450 for such services during 2017.

Note 8 – State Franchise Tax and Sales Tax

The Association is exempt from Texas franchise tax as specified under Section 171.082 of the Texas Tax Code as a homeowners' association. The Association is exempt from sales tax as a qualifying 501 (c) (4) association.

Note 9 – Subsequent Events

Upon evaluation, the Association notes that there were no material subsequent events between the date of the financial statements and the date that the financial statements were issued or available to be issued.

Northcrest Homeowners Association, Inc.
Notes to Financial Statement
December 31, 2017

Note 10 – Prior Period Adjustments

The prior period adjustments are regarding adjustments on prior period bad debt account. The adjustment has no effect on federal income tax liability.