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September 4, 2020

Northcrest Homeowners Association, Inc.
P. O. Box 810552
Dallas, Texas 75381-0552

To Whom It May Concern:

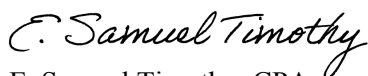
Our firm has prepared the Independent Auditors' Report for Northcrest Homeowners Association, Inc. for the year ended December 31, 2019. Enclosed you will find an electronic draft copy of the auditors' report. This draft copy should be distributed to the property management and the Board of Directors of the Association for review. If there are any changes that need to be made to the footnotes or the report, please contact our office as soon as possible, so that we will be able to make the necessary changes before issuing the final copy(ies) of the report. The report release dates listed at the bottom of the Independent Auditors' Report and in Footnote 2, are currently incomplete. These dates will be revised to the actual report release date that the final report will be issued. The final report will only be issued after we receive the signed management representation letter and a response from the lawyer(s) used by the Association during the year (if any).

Enclosed you will also find the management representation letter. This letter is the four-page letter that is addressed to our office, which needs to be forwarded to the Board of Directors for signature. The management representation letter is a letter from the Board of Directors to the auditor stating that the Board of Directors has provided the auditor with all necessary information for the completion of the audit and taking responsibility for the Association's financial statements. This letter from the Board of Directors will need to be returned to our office and kept on file along with the audit.

Once our office has received the signed management representation letter, the attorney's response letter (if any), and has confirmed bank account balances, we will be able to issue the Independent Auditors' Report in final copy. The final copy will be sent electronically; and if requested, will be mailed and include one unbound report and four bound reports signed by our firm. You should receive the final copy(ies) of the audit upon our receipt of payment of our invoice and all the necessary items as mentioned above.

Thank you for your prompt attention to this matter. Please do not hesitate to contact our office if you have any further questions concerning the draft copy of the auditors' report or any of the enclosed items in the audit draft package.

Sincerely,



E. Samuel Timothy, CPA
Timothy, DeVolt and Company, P.C.
Certified Public Accountants

NORTHCREST HOMEOWNERS ASSOCIATION, INC.

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CERTIFIED PUBLIC ACCOUNTANTS
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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 Northcrest Homeowners Association, Inc., which comprise the Balance Sheet as of December 31, 2019, 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 Northcrest Homeowners Association, Inc. as of December 31, 2019, 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.

Report on Supplementary Information

As discussed in Footnote 6, the Association's Management (The Board of Directors) has not conducted a reserve study on future major repairs and replacements, which 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.

Very truly yours,

Timothy, DeVolt and Company, P.C.
Certified Public Accountants
September XX, 2020

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NORTHCREST HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2019

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash, including interest-bearing deposits	\$ 49,045	\$ 140,376	\$ 189,421
Assessments receivable, less allowance for doubtful accounts of \$ 24,700	20,132		20,132
Prepaid insurance	1,045		1,045
Prepaid expense - other	327		327
TOTAL CURRENT ASSETS	<u>70,549</u>	<u>140,376</u>	<u>210,925</u>
PROPERTY AND EQUIPMENT, AT COST			
Land	760		760
PROPERTY AND EQUIPMENT, NET	<u>760</u>	<u>-</u>	<u>760</u>
TOTAL ASSETS	<u>\$ 71,309</u>	<u>\$ 140,376</u>	<u>\$ 211,685</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 1,301	\$	\$ 1,301
Assessments received in advance	15,478		15,478
Owner fees payable to management	50		50
TOTAL CURRENT LIABILITIES	<u>16,829</u>	<u>-</u>	<u>16,829</u>
TOTAL OTHER LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>16,829</u>	<u>-</u>	<u>16,829</u>
FUND BALANCES / (DEFICITS)	<u>54,480</u>	<u>140,376</u>	<u>194,856</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 71,309</u>	<u>\$ 140,376</u>	<u>\$ 211,685</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, 2019

REVENUES	OPERATING FUND	REPLACEMENT FUND	TOTAL
Regular assessments	\$ 303,720	\$ 31,080	\$ 334,800
Late/collection charges	16,673		16,673
Miscellaneous owner fees	3,275		3,275
Other income	50		50
Interest income	20	761	781
TOTAL REVENUES	323,738	31,841	355,579
OPERATING EXPENSES			
Repairs - foundation	138,781		138,781
Landscaping & lawn maintenance	58,103		58,103
Management fees - contract	36,382		36,382
Repairs - garage / carport	23,916		23,916
Bad debt expense	21,700		21,700
Utilities expense	19,832		19,832
Common area maintenance	10,405		10,405
Repairs - plumbing	8,500		8,500
Repairs - exterior	7,709		7,709
Repairs - roofs	7,529		7,529
Pool maintenance & repairs	6,657		6,657
Repairs - fence / gate / walls	4,258		4,258
Office supplies & admin. costs	4,201		4,201
Repairs - irrigation	3,637		3,637
Insurance expense	3,556		3,556
Porter service	2,942		2,942
Legal & professional fees	1,950		1,950
Cable / telephone expense	1,382		1,382
Pest control	1,272		1,272
Repairs - other	749		749
Taxes - real property	22		22
TOTAL OPERATING EXPENSES	363,483	-	363,483
EXCESS REVENUES / (EXPENSES)	<u>\$ (39,745)</u>	<u>\$ 31,841</u>	<u>\$ (7,904)</u>
BEGINNING FUND BALANCE / (DEFICIT)	54,225	148,535	202,760
INTER-FUND TRANSFERS	40,000	(40,000)	-
ENDING FUND BALANCE / (DEFICIT)	<u>\$ 54,480</u>	<u>\$ 140,376</u>	<u>\$ 194,856</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, 2019

	OPERATING FUND	REPLACEMENT FUND	TOTAL
CASH FLOW FROM OPERATING ACTIVITIES			
Excess revenues/ (expenses)	\$ (39,745)	\$ 31,841	\$ (7,904)
Add: Depreciation	-	-	-
Decrease / (Increase) in:			
Accounts receivable	(3,276)	-	(3,276)
Prepaid expenses	(455)	-	(455)
Increase / (Decrease) in:			
Accounts payable	266	-	266
Prepaid assessments	(602)	-	(602)
Collection fee escrow	50	-	50
NET CASH PROVIDED/ (USED) BY OPERATIONS	(43,762)	31,841	(11,921)
CASH FLOW FROM FINANCING ACTIVITIES			
Inter-fund transfers	40,000	(40,000)	-
NET CASH PROVIDED/ (USED) BY FINANCING	40,000	(40,000)	-
NET INCREASE/ (DECREASE) IN CASH	(3,762)	(8,159)	(11,921)
CASH BALANCE, BEGINNING OF YEAR	52,807	148,535	201,342
CASH BALANCE, END OF YEAR	\$ 49,045	\$ 140,376	\$ 189,421

SUPPLEMENTAL DISCLOSURE

Cash paid during the year for:

Federal Income Tax	\$ -	\$ -	\$ -
Interest Expense	\$ -	\$ -	\$ -

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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, 2019

FOOTNOTE 1: 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 September XX, 2020, 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.

See the accompanying Independent Auditors' Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

FOOTNOTE 3: (CONTINUED):

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.

REPLACEMENT FUND ASSESSMENT REVENUES: The Association has applied ASC 605 revenue recognition whereby “rules based” specific guidance was defined for CIRAs rather than ASC 606 which provides “principles based” broad standards that do not include specific guidance for CIRAs. Furthermore, Replacement Fund Assessments cannot apply the following four tests required under ASC 606: (1.) Assessments are not related to a “customer or customers” (2.) Assessments do not have a performance obligation (3.) There is no transaction price for replacement expenses (4.) Cannot allocate Assessments to a future performance obligation. As a result, we do not believe that the application of ASC 606 would fairly present the financial position to the CIRA financial readers.

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, 2019, the allowance for doubtful accounts of \$ 16,000 represents approximately 43 % of the total accounts receivable and 61 % of the outstanding amounts in excess of ninety days old.

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.

See the accompanying Independent Auditors’ Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

FOOTNOTE 3: (CONTINUED):

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 (Section 277 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, Section 277 Sub-Chapter A imposes a tax rate of 21 % on the Association's overall net income, if any.

As a result of the Association's operations for the year ended December 31, 2019, the Association has elected to file under Section 528. Income tax for the year was \$ -0-.

Currently, the open tax years available to audit by the IRS are 2017, 2018 and 2019. However, the Association has not been notified that any of these tax return years have been selected for audit by the IRS.

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.

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 days' notice.

See the accompanying Independent Auditors' Report.

NORTHCREST HOMEOWNERS ASSOCIATION, INC.
FOOTNOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

FOOTNOTE 5: FAIR VALUE: The Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements), moderate priority to a valuation based on quoted prices in active markets for similar assets and liabilities and/or based on assumptions that are observable (level 2 measurements), and the lowest priority to unobservable inputs (level 3 measurements). The carrying amounts reflected in the December 31, 2019 balance sheet for cash and cash equivalents approximate the respective fair values. All cash and cash equivalents, including money market accounts, are held in banks. The Association currently has no money market accounts with non-federally insured institutions.

FOOTNOTE 6: REPLACEMENT FUND: The Association has not conducted a study to determine the amount of future major repairs and replacements. The Association's governing documents generally provide for the levying for 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, 2019, the Association added approximately \$ 31,080, before earnings of \$ 761 to the replacement fund. Accumulated funds, which aggregate approximately \$ 140,376 at December 31, 2019, are held in separate accounts and are generally not available for operating purposes.

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

See the accompanying Independent Auditors' Report.