

HIGHLANDS OF PLANO PRESTON RIDGE HOMEOWNERS ASSOCIATION

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DECEMBER 31, 2011

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Highlands of Plano Preston Ridge Homeowners Association  
Plano, Texas

We have audited the accompanying Balance Sheet of the Highlands of Plano Preston Ridge Homeowners Association at December 31, 2011 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 Highlands of Plano Preston Ridge Homeowners Association at December 31, 2011 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.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on pages 8-9 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 compilation 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,

*DeVOLT and Company, P.C.*

DeVOLT and Company, P.C.

Certified Public Accountants

November 6, 2012

HIGHLANDS OF PLANO PRESTON RIDGE HOMEOWNERS ASSOCIATION  
BALANCE SHEET  
DECEMBER 31, 2011

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash, including interest-bearing deposits	\$ 76,803	\$ 22,414	\$ 99,217
Assessments receivable, less allowance for doubtful accounts of \$ 2,900			
Accounts receivable - other	25		25
Prepaid insurance	1,532		1,532
TOTAL CURRENT ASSETS	<u>78,360</u>	<u>22,414</u>	<u>100,774</u>
TOTAL ASSETS	<u>\$ 78,360</u>	<u>\$ 22,414</u>	<u>\$ 100,774</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 1,164	\$	\$ 1,164
Assessments received in advance	41,105		41,105
TOTAL CURRENT LIABILITIES	<u>42,269</u>	<u>-</u>	<u>42,269</u>
TOTAL LIABILITIES	<u>42,269</u>	<u>-</u>	<u>42,269</u>
FUND BALANCES / (DEFICITS)	<u>36,091</u>	<u>22,414</u>	<u>58,505</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 78,360</u>	<u>\$ 22,414</u>	<u>\$ 100,774</u>

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

HIGHLANDS OF PLANO PRESTON RIDGE HOMEOWNERS ASSOCIATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2011

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Regular assessments	\$ 62,340	\$ 3,360	\$ 65,700
Miscellaneous income	1,130		1,130
Interest income	403	142	545
Late/collection charges	179		179
TOTAL REVENUES	<u>64,052</u>	<u>3,502</u>	<u>67,554</u>
OPERATING EXPENSES			
Landscaping & lawn maintenance	23,247		23,247
Management fees	12,147		12,147
Utilities expense	11,367		11,367
Office supplies & admin. costs	5,368		5,368
Insurance expense	4,435		4,435
Bad debt expense	2,862		2,862
Legal & professional fees	2,720		2,720
Community activities	2,048		2,048
Repairs - other	334		334
TOTAL OPERATING EXPENSES	<u>64,528</u>	<u>-</u>	<u>64,528</u>
EXCESS REVENUES / (EXPENSES)			
FROM OPERATIONS	<u>\$ (476)</u>	<u>\$ 3,502</u>	<u>\$ 3,026</u>
EXCESS REVENUES / (EXPENSES)	<u>\$ (476)</u>	<u>\$ 3,502</u>	<u>\$ 3,026</u>
BEGINNING FUND BALANCE / (DEFICIT)	<u>36,567</u>	<u>18,912</u>	<u>55,479</u>
ENDING FUND BALANCE / (DEFICIT)	<u>\$ 36,091</u>	<u>\$ 22,414</u>	<u>\$ 58,505</u>

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

HIGHLANDS OF PLANO PRESTON RIDGE HOMEOWNERS ASSOCIATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Excess revenues/ (expenses)	\$ (476)	\$ 3,502	\$ 3,026
Add: Depreciation	-	-	-
Decrease / (Increase) in:			
Accounts receivable	1,808	-	1,808
Accounts receivable - other	(25)	-	(25)
Prepaid expenses	(256)	-	(256)
Increase / (Decrease) in:			
Accounts payable	(496)	-	(496)
Prepaid assessments	3,483	-	3,483
<b>NET CASH PROVIDED/ (USED) BY OPERATIONS</b>	<u>4,038</u>	<u>3,502</u>	<u>7,540</u>
<b>NET INCREASE/ (DECREASE) IN CASH</b>	4,038	3,502	7,540
CASH BALANCE, DECEMBER 31, 2010	<u>72,765</u>	<u>18,912</u>	<u>91,677</u>
CASH BALANCE, DECEMBER 31, 2011	<u>\$ 76,803</u>	<u>\$ 22,414</u>	<u>\$ 99,217</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.

HIGHLANDS OF PLANO PRESTON RIDGE  
HOMEOWNERS ASSOCIATION  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

FOOTNOTE 1: The Highlands of Plano Preston Ridge Homeowners Association is a Texas non-profit corporation formed November 2, 1992. The purpose of the Association is to operate and maintain the Highlands of Plano Preston Ridge Homeowners Association homeowners project. The project consists of 292 lots and associated common areas located in Plano, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through November 6, 2012, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for the Highlands of Plano Preston Ridge Homeowners Association 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 rates for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

EXPENDITURES: Expenditures are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures exceeding \$ 2,500 must be approved by the President. All large expenditures, projects and services are contracted for using competitive bidding policies. The Board of Directors has the final approval on all contracts.

See the accompanying Independent Auditors' Report.

HIGHLANDS OF PLANO PRESTON RIDGE  
HOMEOWNERS ASSOCIATION  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, the allowance for doubtful accounts of \$ 2,900 represents approximately 100 % of the total accounts receivable and approximately 112.80 % of the outstanding amounts in excess of ninety days old.

PROPERTY AND EQUIPMENT: The Association assumed, from the developer, the responsibility to maintain and preserve the common areas of the project. 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 the Association cannot dispose of this property. The Association capitalized personal property, if any, at cost and depreciates it using the straight-line method, over 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, 2011, 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.

HIGHLANDS OF PLANO PRESTON RIDGE  
HOMEOWNERS ASSOCIATION  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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.



HIGHLANDS OF PLANO PRESTON RIDGE  
HOMEOWNERS ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

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, 2011, the Association added approximately \$ 3,360, before earnings of \$ 142 to the replacement fund. Accumulated cash funds, which aggregate approximately \$ 22,414 at December 31, 2011, are held in separate accounts and are generally not available for operating purposes.

In January of 2011, the Association commissioned a reserve study by Fisher-Smoucha Consulting, Inc. to determine the amount of funds necessary for future major repairs and replacements. Estimates of the remaining useful lives of components and the cost to replace various items have been estimated based upon the expertise of the company hired to perform the study. These estimates are as follows:

COMPONENT	REPLACE. COST	REM. LIFE	CURRENT FUNDING	ANNUAL FUNDING
<b>Common Area Site Improvements</b>				
Entrance Monument Restoration	\$ 7,500	9	\$ 4,500	\$ 300
Entrance Monument Lighting Replace.	1,500	9	500	100
Entry Median Pavestone Replacement	3,500	9	2,100	140
Entry Median Light Pole Replacement	2,500	4	1,875	125
Masonry Screen Wall Restoration	5,000	2	2,000	1,000
Masonry Screen Wall Column Replace.	5,000	7	1,430	333
Masonry Screen Wall Panel Replace.	5,000	2	3,500	500
Masonry Screen Wall Replacement	10,000	16	-0-	294
Perimeter Metal Fence Paint/Seal	2,500	3	500	500
Perimeter Metal Fence Replacement	12,500	13	-0-	417
Fence Concrete/Brick Footing Replace.	1,500	13	800	50
Stone Retaining Wall Restoration	1,200	4	343	171
Stone Retaining Wall Replacement	7,800	18	3,566	223
Common Area Drainage Restoration	1,800	9	300	150
Landscape Irrigation Controller Repl.	2,000	3	1,000	250
Misc. Replacement Contingency	600	0	0	600
<b>TOTALS</b>	<u>\$ 69,900</u>		<u>\$ 22,414</u>	<u>\$ 5,153</u>

See the accompanying Independent Auditors' Report.

HIGHLANDS OF PLANO PRESTON RIDGE  
HOMEOWNERS ASSOCIATION  
SUPPLEMENTARY INFORMATION ON FUTURE  
MAJOR REPAIRS AND REPLACEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

REPLACEMENT FUND:

Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If cash amounts are not sufficient to fund future major repairs and replacements, the Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments. Additionally, the Association has the authority to postpone needed repairs.

See the accompanying Independent Auditors' Report.