

**MCKINNEY PARK EAST (AUSTIN)
HOMEOWNERS' ASSOCIATION, INC.**

REPORT ON EXAMINATION

FOR THE YEAR ENDED DECEMBER 31, 2012



Stephen M. Tilson, PC
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
McKinney Park East (Austin) Homeowners' Association, Inc.
Austin, Texas

We have audited the accompanying balance sheet of McKinney Park East (Austin) Homeowners' Association, Inc. as of December 31, 2012 and the related statements of revenues, expenses and changes in members' equity, 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 McKinney Park East (Austin) Homeowners' Association, Inc. as of December 31, 2012, and the results of its operations and cash flows for the period then ended in conformity with generally accepted accounting principles.

The supplementary information on future major repairs and replacements presented at the end of this report is not a required part of the basic financial statements but is supplementary information required by the Financial Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries 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.

Stephen M. Tilson, PC

March 28, 2014
Austin, Texas

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEET
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS

Cash - Operating	\$ 64,653.45	
Cash - Operating	65,000.00	
Cash - Reserve	8,494.31	
Cash - Collections	9,410.17	
Cash - Collections Reserve	7,007.14	
Cash - Reserve - CD	25,000.00	
Cash - Reserve - CD	25,000.00	
Cash - Reserve - CD	25,000.00	
Accounts receivable, net	17,010.20	
Prepaid insurance	<u>3,135.18</u>	
TOTAL CURRENT ASSETS		\$ 249,710.45

FIXED ASSETS

Equipment, net	\$ <u>1,663.99</u>	
TOTAL FIXED ASSETS		<u>\$ 1,663.99</u>
TOTAL ASSETS		<u><u>\$ 251,374.44</u></u>

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES

Prepaid dues	\$ 7,811.34	
Accounts payable	<u>9,176.74</u>	
TOTAL CURRENT LIABILITIES		<u>\$ 16,988.08</u>
TOTAL LIABILITIES		\$ 16,988.08

MEMBERS' EQUITY

Unrestricted members' equity	\$ 159,930.32	
Developer contributions	20,644.76	
Springfield pool reserves	2,773.00	
Excess of revenues over expenses	<u>51,038.28</u>	
TOTAL MEMBERS' EQUITY		<u>\$ 234,386.36</u>
TOTAL LIABILITIES AND MEMBERS' EQUITY		<u><u>\$ 251,374.44</u></u>

See accountant's report

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2012

REVENUES

Owner assessments	\$ 239,529.63	
Attorney fees	36,834.83	
Entry fees	18,800.00	
Late fees	5,411.56	
Springfield pool agreement	27,734.00	
Pool key income	450.00	
Interest income	526.17	
Payment plan fees	8,505.00	
Collection income	15,610.48	
Other income	331.14	
TOTAL REVENUES	<u>331.14</u>	\$ 353,732.81

EXPENSES

UTILITIES

Water & Sewer	\$ 13,847.07	
Electricity	17,022.52	
Telephone	2,226.14	
	<u>2,226.14</u>	\$ 33,095.73

MAINTENANCE

Landscaping	\$ 48,853.24	
Landscaping easement	1,013.22	
Forced mows	487.13	
Irrigation	2,221.90	
Supplies	403.55	
Locks	819.46	
Pool	12,733.76	
Pool monitors	52,530.66	
Pool supplies	1,697.74	
Miscellaneous	6,333.51	
Patrol service	680.00	
Signage	337.74	
	<u>337.74</u>	\$ 128,111.91

GENERAL & ADMINISTRATIVE

Management fees	\$ 24,600.00	
Neighborhood watch	1,972.09	
Legal meetings	2,102.33	
Legal fees- collections	39,072.33	
Accounting & audit	1,800.00	
Welcome packet	2,300.00	
Office supplies	6,086.59	
Freight & postage	4,062.20	
License, fees , permits	400.00	
Professional fees	560.00	
Meeting expense	928.21	
Website	677.60	
Collection fee expense	19,652.51	
Bad debt expense	7,717.85	
Depreciation expense	298.67	
	<u>298.67</u>	\$ 112,230.38

EXPENSES SUBTOTAL	\$ 273,438.02
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See accountant's report.

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

EXPENSES (CONTINUED)			
EXPENSES SUBTOTAL		<u>\$ 273,438.02</u>	
<i>TAXES AND INSURANCE</i>			
Property taxes	\$ 2,056.45		
Insurance expense	<u>4,389.24</u>		
		\$ 6,445.69	
CAPITAL & RESERVE EXPENDITURES			
Pool replaster	<u>\$ 22,810.82</u>		
		<u>\$ 22,810.82</u>	
TOTAL EXPENSES			<u>\$ 302,694.53</u>
EXCESS OF REVENUES OVER EXPENSES			\$ 51,038.28
MEMBERS' EQUITY			
UNRESTRICTED MEMBERS' EQUITY AT 12/31/2011			<u>159,930.32</u>
UNRESTRICTED MEMBERS' EQUITY AT 12/31/2012			<u><u>\$ 210,968.60</u></u>

See accountant's report.

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

OPERATING ACTIVITIES:

EXCESS OF REVENUE OVER EXPENSE	\$ 51,038.28
DEPRECIATION EXPENSE	298.67
CHANGES IN OPERATING ASSETS AND LIABILITIES	
(INCREASE) DECREASE IN ACCOUNTS RECEIVABLE - NET	(17,010.00)
(INCREASE) DECREASE IN PREPAID INSURANCE	(3,135.18)
INCREASE (DECREASE) IN PREPAID ASSESSMENTS	4,096.79
INCREASE (DECREASE) IN ACCOUNTS PAYABLE	7,938.58
INCREASE (DECREASE) IN LEGAL COLLECTIONS PAYABLE	(20,644.76)
INCREASE (DECREASE) DUE TO PRIOR PERIOD ADJUSTMENTS	<u>6,796.17</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	<u>\$ 29,378.55</u>

INVESTING ACTIVITIES:

(INCREASE) DECREASE IN FIXED ASSETS, NET	<u>\$ -</u>
NET CASH PROVIDED BY (USED BY) INVESTING ACTIVITIES	<u>\$ -</u>

FINANCING ACTIVITIES:

INCREASE (DECREASE) IN POOL RESERVES	<u>\$ 2,773.00</u>
NET CASH PROVIDED BY (USED BY) FINANCING ACTIVITIES	<u>\$ 2,773.00</u>

NET INCREASE (DECREASE) IN CASH	\$ 32,151.55
CASH AND EQUIVALENTS AT 12/31/2011	<u>197,413.52</u>
CASH AND EQUIVALENTS AT 12/31/2012	<u><u>\$ 229,565.07</u></u>

SUPPLEMENTAL DISCLOSURE:

INCOME TAX PAID	\$ -
INTEREST PAID	\$ -

See accountants' report.

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1: NATURE OF ORGANIZATION

The Association was incorporated in October 2002 under the Texas Non-profit Corporation Act for the purpose of operating, managing, maintaining and administering the affairs of McKinney Park East (Austin) Homeowners Association, Inc. This is a residential subdivision still under development and is located in Austin, Travis County, Texas. At December 31, 2012, there were approximately 800 home sold. At full build-out, the development will contain approximately 1,157 lots. The owner of each lot pays an annual fee to the Association.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements 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.

Basis of Accounting

The Association uses the accrual basis method of accounting. Using this method of accounting, revenues and accounts receivable are recognized when earned regardless of when cash is received. Revenues received prior to being earned are reported as prepaid assessments. Expenses and accounts payable are recognized when the obligation is incurred regardless of when cash is disbursed. Expenses paid before being obligated are reported as prepaid expenses.

Accounts Receivable

Assessments receivable at December 31, 2012 represent assessments due from owners. Prepaid assessments at December 31, 2012 represent assessments paid in advance by owners. The Association values accounts receivable using an allowance for uncollectible accounts. At year-end, an allowance for uncollectible accounts in the amount of \$144,000 was recorded due to the fact that approximately 91% of the total receivables of \$161,010, were at least 120 days past due.

Fixed Assets

Real property and common areas acquired from the developer of the property and related improvements to that real common property are not recorded in the Association's financial statements because those common elements are owned by the individual unit owners in common and not by the Association.

Personal property acquired by the Association would be capitalized at cost and depreciated over the useful life of the property using the straight line method of depreciation. Depreciation expense for 2012 was \$299.

Member Assessments

Association members are subject to an annual assessment that provides funds for the Association's operating expenses, fixed asset purchases, capital acquisitions, and major repairs and replacements. The Association may make special assessments from time to time as approved by 66 2/3% of the lot owners. Any excess assessments at year-end are retained by the Association for use in the succeeding year.

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Cash and Cash Equivalents

The Association considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of money market funds with readily determinable fair values and are stated in the financial statements at fair market value.

Note 3: FEDERAL INCOME TAXES

The Association has elected to be taxed under Internal Revenue Code § 528 which allows the Association to exclude exempt function income from gross income. Exempt function income consists of membership dues or other fees the Association receives from members as owners of the Association's services. Taxable income arises from amounts received from nonmembers of the Association including interest earned on reserve funds. The Association had no federal income tax liability for 2012.

The Association is required to file either Form 1120, U.S. Corporation Income Tax Return, or Form 1120-H, U.S. Income Tax Return for Homeowners Associations. These tax returns are subject to examination by the Internal Revenue Service for a three year period from the later of the original due date of the return or the date the tax return was filed. As a result, the Association's federal income tax returns for 2009, 2010 and 2011 are open to examination by the Internal Revenue Service as of December 31, 2012.

Note 4: FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$83,494 at December 31, 2012, are generally not available for operating purposes.

A reserve study was conducted in February 2010 by an outside consultant to estimate the remaining useful lives and the replacement costs of the components of the common property. The estimates were based on current estimated replacement costs. The data included in the unaudited supplementary information on future major repairs and replacements is based on the study.

The Association is funding for major repairs and replacements over the estimated useful lives of the components based on estimated current replacement costs, considering amounts previously accumulated in the 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 additional funds are needed, however, the Association has the right, subject to board of director's approval, to increase regular assessments, levy special assessments; or delay major repairs and replacements until funds are available.

The Association is responsible for preserving and maintaining the common property.

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 5: SUBSEQUENT EVENTS

The Association has evaluated subsequent events through March 28, 2014, the date the financial statements were available to be issued, and no events have occurred from the balance sheet date through that date that would impact the financial statements.

SUPPLEMENTARY INFORMATION

MCKINNEY PARK EAST (AUSTIN) HOMEOWNERS' ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS (UNAUDITED)
YEAR ENDED DECEMBER 31, 2012

The Association engaged an outside consultant to conduct a study in February 2010 to estimate the replacement costs and estimated useful lives of the elements of common property. Replacement costs were based on estimates provided by the consultant and do take into account the effects of inflation.

The following information is based on the study and presents significant information about the components of common property. The board has not designated the funds accumulated in the reserve account to specific components.

COMPONENT	ESTIMATED REMAINING USEFUL LIFE (YEARS)	ESTIMATED CURRENT REPLACEMENT COST	DESIGNATED FOR REPAIRS/REPLACEMENT DECEMBER 31, 2012
SITE			
Asphalt Pavement, Mill and Overlay	10	\$ 54,462	
Asphalt Pavement, Total Replacement	28	186,846	
Asphalt Pavement, Total Replacement, Walking Paths	0	18,627	
Concrete Curbs and Gutters, Partial Replacements	10	16,609	
Concrete Sidewalks, Partial Replacements	3	54,004	
Irrigation System	27	270,630	
Light Poles and Fixtures	17	14,195	
Playground Equipment	12	66,239	
Signage, Entrance Monuments, Capital Repairs	5	29,577	
POOL HOUSE			
Rest Rooms, Renovation	17	33,799	
Roof, Metal	22	42,683	
Security System	5	68,882	
Walks, Stucco, Paint Finishes and Capital Repairs	2	16,565	
POOL ELEMENTS			
Concrete Deck, Coatings, Inspections, Partial Replacements and Repairs	0	159,401	
Fence, Metal	22	81,486	
Fence, Metal, Paint Finishes	0	42,197	
Furniture	4	75,174	
Mechanical Equipment	5	54,584	
Plaster Finish Replacement and Tile Repairs	2	269,018	
Shade Umbrella	4	115,063	
Reserve Study Update with Site Visit	0	2,800	
TOTAL		\$ 1,672,841	\$ 83,494

See accountant's report.