

THE WHARF AT CLEAR LAKE MAINTENANCE ASSOCIATION, INC.

REVIEWED FINANCIAL STATEMENTS

FOR THE YEARS ENDING DECEMBER 31, 2012 and 2011

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
The Wharf at Clear Lake Maintenance Association, Inc.
League City, Texas

We have reviewed the accompanying balance sheet-modified cash basis of The Wharf at Clear Lake Maintenance Association, Inc. as of December 31, 2012 and the related statements of revenues, expenses, and changes in fund balances-modified cash basis for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

As described in Note 2, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These financial statements also do not include a statement of cash flows, which is required for financial statements prepared using accounting principles generally accepted in the United States of America, but is not required under the modified cash basis of accounting.

Based on our review, we are not aware of any material modifications that should be made to the accompanying December 31, 2012 financial statements in order for them to be in conformity with principles of the modified cash basis of accounting, as described in Note 2.

The December 31, 2011 financial statements were audited by us, and we expressed an unqualified opinion on them in our report dated June 29, 2012. We have not performed any auditing procedures since that date.

The Wharf at Clear Lake Maintenance Association, Inc. has not estimated the remaining lives and replacement costs of the common property, and therefore has not presented the supplementary information on future major repairs and replacements that the American Institute of Certified Public Accountants has determined is required to supplement, although not a required part of, the basic financial statements.

Houston, Texas
July 15, 2013

THE WHARF AT CLEAR LAKE MAINTENANCE ASSOCIATION, INC.
Balance Sheets-Modified Cash Basis
December 31, 2012 and 2011

	2012	2011
	<u>(Reviewed)</u>	<u>(Audited)</u>
Assets		
Cash and cash equivalents	\$ 7,416	\$ 10,720
Total Assets	<u>7,416</u>	<u>10,720</u>
 Liabilities and Fund Balances		
Liabilities		
Line of credit	68,700	54,700
Total Liabilities	<u>68,700</u>	<u>54,700</u>
 Fund Balances		
Operating fund deficit	\$ (61,284)	\$ (43,980)
Total Fund Deficit Balances	<u>(61,284)</u>	<u>(43,980)</u>
 Total Liabilities and Fund Balances	<u>7,416</u>	<u>10,720</u>

See accompanying accountants' review report and notes to the financial statements.

THE WHARF AT CLEAR LAKE MAINTENANCE ASSOCIATION, INC.
Statements of Revenues, Expenses, and Changes in Fund Balances
Modified Cash Basis
For Years Ended December 31, 2012 and 2011

	2012 (Reviewed)	2011 (Audited)
Revenues		
Member assessments	\$ 348,351	\$ 352,194
Parking lease income	1,320	1,000
Late penalty and other	2,870	1,510
Total Revenues	352,541	354,704
Expenses		
Administrative costs	47,590	44,405
Common property maintenance	148,244	167,607
Insurance-property and liability	20,623	17,646
Landscaping	51,320	51,109
Major repairs	15,542	13,861
Pool service and repairs	10,006	8,817
Professional fees	2,045	2,472
Trash removal	19,902	19,809
Utilities-electricity	15,104	12,749
Utilities-water and sewer	39,470	51,866
Total Expenses	369,845	390,341
Excess Expenses Over Revenues	(17,304)	(35,637)
Fund (Deficit) Balances, Beginning	(43,980)	(8,343)
Fund Deficit Balances, Ending	\$ (61,284)	\$ (43,980)

The accompanying notes are an integral part of these financial statements.

NOTE 1 – NATURE OF ORGANIZATION

The Wharf at Clear Lake Maintenance Association, Inc. (the “Association”) was incorporated as a nonprofit corporation in the State of Texas on March 22, 1978, for the purposes of operating and maintaining the common property of The Wharf at Clear Lake. The Association includes 123 homesites on approximately ten acres of land located in League City, Texas.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Association are prepared using the modified cash basis of accounting. That method differs from generally accepted accounting principles since it requires revenues and their related assets to be recorded when received rather than when earned and expenses and their related liabilities to be recorded when paid rather than when incurred. Outstanding debt is recognized on the balance sheet.

The Association’s governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitation and restrictions on the use of financial resources, the Association uses fund accounting which requires that funds designated for future major repairs and replacements and funds received from members for designated purposes other than operating to be classified separately, in the Capital Fund, for accounting and reporting purposes. For 2012 and 2011 the Capital Fund had a zero balance, and major repairs were paid out of current operating funds.

Member Assessments

Association members are subject to monthly assessments to provide funds for the Association’s operating expenses and future major repairs and replacements. The Association’s policy is to retain legal counsel on the units of members whose assessments become three months or more delinquent. Any excess assessments at year end are retained by the Association for use in the succeeding year.

Common Property

The Association capitalizes all property and equipment to which it has title or other evidence of ownership with the exception of real property directly associated with the units. At December 31, 2012, property not capitalized consists of two swimming pools, a

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tennis court, garages, club house/office, sidewalks, access roads, bulkhead, boardwalk, and greenbelts.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

The preparation of the financial statements is in conformity with the modified cash basis of accounting and does not require management to make estimates and assumptions that affect certain reported amounts and disclosures.

Subsequent Events

Subsequent events have been evaluated through July 15, 2013, which is the date the financial statements were issued.

New Accounting Pronouncements

The Association has considered the potential impacts of accounting pronouncements that have been issued but have not yet taken effect. The impact of such pronouncements is not expected to be material to the financial statements.

NOTE 3 – FEDERAL INCOME TAXES

Community associations may be taxed either as homeowner associations or as regular corporations. For 2012 the Association elected to file its federal income tax return as a homeowner association. Under that election, the Association is taxed on its nonexempt function income, such as interest earnings at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable. For 2012 and 2011, the Association has no federal income tax expense. Tax returns for 2009 through 2012 are subject to examination by taxing authorities.

NOTE 4 – FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. There are no accumulated funds at December 31, 2012 and 2011, which are generally held in separate bank accounts. The Association is accumulating funds based on estimated future costs of major repairs and replacements; however, no formal study has been made. Actual expenditures may vary from the estimated amounts and the variation may be material. Therefore, amounts accumulated in the future major repair fund may not be adequate to meet future needs. If additional funds are needed; however the Association has the right, subject to member approval, to

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levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 5 – LINE OF CREDIT

The Association has a line of credit with a local bank, and draws on this line of credit from time to time to help finance the ongoing projects of the Association. The balance at December 31, 2012 and 2011 was \$68,700 and \$54,700, respectively. This line of credit is unsecured and bears interest at a stated rate of 5% per annum. Interest expense is recorded in the statements of revenues, expenses and changes in fund balance as a component of administrative expense. For 2012 and 2011, total interest expense was approximately \$1,800 and \$1,600, respectively. This is included in the financial statements as a component of administrative costs.