

**HOMEOWNERS ASSOCIATION OF
FORUM PARK III TOWNHOMES, INC**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

**For the Year Ended
December 31, 2009**

**NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS**

**HOMEOWNERS ASSOCIATION OF
FORUM PARK III TOWNHOMES, INC**

TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditor's Report	1
Balance Sheets	2
Statements of Assessments, Revenues, and Expenses, and Changes in Fund Balances	3
Statements of Cash Flows	4
Notes to Financial Statements	5
Supplemental Schedules:	
Analysis of Assessments, Revenues, and Expenses Per Homeowner and as a Percentage of Assessments	8
Comparison of Actual to Budget Assessments, Revenues and Expenses	9
Analysis of Assessments, Revenues and Expenses For the year ending December 31, 2009 and 2008	10

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC

We have audited the accompanying Balance Sheets of HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC, as of December 31, 2009 and 2008 and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances as well as the Statements of Cash Flows for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards as generally accepted in the United States of America. These 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 HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC, as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC has not estimated the remaining lives and replacement cost of common property and, therefore, has not presented the estimates of future costs of major repairs and replacements. The American Institute of Certified Public Accountants has determined the estimates are required to supplement, but are not required to be part of, the basic financial statements.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules on pages 8 through 10 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nagesh & Carter, PLLC

Houston, Texas

June 9, 2010

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.

BALANCE SHEETS

As of December 31, 2009 and 2008

	Operating Fund	Hurricane Ike Fund	Replacement Fund	Totals 31-Dec-09	Totals 31-Dec-08
<u>ASSETS</u>					
Current Assets					
Cash	(\$5,888)	-	\$12,227	\$6,339	\$83,898
Accounts receivable	93,111	-	-	93,111	196,091
Allowance for adjustments and write offs	-	-	-	-	(114,074)
Prepaid expenses	2,548	-	-	2,548	7,661
Total assets	\$89,771	-	\$12,227	\$101,998	\$173,576
<u>LIABILITIES AND FUND BALANCE</u>					
Current liabilities					
Accounts payable	\$0	-	-	\$0	\$21,552
Prepaid maintenance fees	3,484	-	-	3,484	4,324
Total current liabilities	3,484	-	-	3,484	25,876
Fund balance	86,287	-	\$12,227	98,514	147,700
Total liabilities and fund balance	\$89,771	-	\$12,227	\$101,998	\$173,576

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

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.

STATEMENT OF ASSESSMENTS, REVENUES AND EXPENSES

AND CHANGES IN FUND BALANCES

For The Years Ended December 31, 2009 and 2008

	Operating Fund	Hurricane Ike Fund	Replacement Fund	Totals 31-Dec-09	Totals 31-Dec-08
Assessments and revenues					
Maintenance fees	\$471,039	-	-	\$471,039	\$470,004
Write-offs and adjustments	(41,898)	-	-	(41,898)	(4,548)
Proceeds from sale of units	4,500	-	-	4,500	
Late fees & penalties	14,028	-	-	14,028	3,299
Interest income	926	-	\$37	963	414
Special assessments	-	-	-	0	
Other income	10,062	-	-	10,062	120
Interfund transfers	(15,750)	\$24,238	(8,488)	-	-
Total revenues	442,907	24,238	(8,451)	458,694	469,289
Operating expenses					
Administrative expenses	57,730	-	-	57,730	34,829
Contract services	86,880	-	-	86,880	109,720
Utilities	192,197	-	-	192,197	200,530
General maintenance and repairs	38,787	-	-	38,787	49,580
Insurance	54,552	-	-	54,552	82,543
Capital improvements and replacements	-	24,238	17,895	42,133	44,369
Total expenses	465,747	24,238	17,895	507,880	521,571
Revenue over (under) expenses	(22,840)	-	(26,346)	(49,186)	(52,282)
Fund balance, beginning of the year	109,127	-	38,573	147,700	199,982
Fund balance, end of the year	\$86,287	\$0	\$12,227	\$98,514	\$147,700

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part of these financial statements*

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.

STATEMENT OF CASH FLOWS

For The Years Ended December 31, 2009 and 2008

	Operating Fund	Hurricane Ike Fund	Replacement Fund	Totals 31-Dec-09	Totals 31-Dec-08
Cash flow from (to) operations					
Assessments and revenues over (under) expenses	(\$22,840)	-	(\$26,346)	(\$49,186)	(\$52,282)
Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations					
Accounts receivable	(11,094)	-	-	(11,094)	(18,447)
Pre-paid insurance	5,113	-	-	5,113	17,023
Accounts payable	(21,552)	-	-	(21,552)	394
Prepaid assessments	(840)	-	-	(840)	609
Total cash flow from (to) operations	(51,213)	-	(26,346)	(77,559)	(52,703)
Increase (decrease) in cash	(51,213)	-	(26,346)	(77,559)	(52,703)
Cash, beginning of the year	45,325	-	38,573	83,898	136,601
Cash, end of the year	(\$5,888)	-	\$12,227	\$6,339	\$83,898

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part of these financial statements*

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

1. ORGANIZATION

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on May 12, 1981.

The Association is the governing body for the homeowners of the Homeowners Association of Forum Park III Townhomes, Inc. a 168 unit condominium complex in Houston, Texas. The purpose for which this Association is organized is to serve as the Council of Co-Owners and to provide for all activities necessary to protect, preserve, maintain and repair the common areas.

The affairs of the Association are managed and controlled by its Board of Directors. These Directors are empowered to exercise, on behalf of the Association, all of the powers, duties, and authorities vested or delegated to it by virtue of the Association's By-Laws, Articles of Incorporation, Declarations and/or Covenants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

METHOD OF ACCOUNTING

The Association is a not-for-profit organization, which employs the fund method of accounting on an accrual basis in order to properly account for restrictions on the expenditures resulting from actions of the Board or the homeowners.

These financial statements segregate the accounting for such funds into operating and capital reserve or replacement funds. The disbursements from the operating fund are generally at the discretion of the Board and property managers and are used for operating expenses. The disbursements from the capital reserve or replacement fund generally may only be utilized in accordance with the purposes established.

OWNERS ASSESSMENTS

The assessments or maintenance fees assessed are based on an annual budget as adopted by the Board pursuant to the by-laws of the Association.

CASH AND CASH EQUIVALENTS

The Association considers cash on hand and cash in banks and all other highly liquid debt instruments purchased with original maturities of three (3) months or less to be cash equivalents.

CAPITALIZATION POLICY

The replacements and improvements to the real property and common areas are expensed in the year incurred.

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

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.

3. ACCOUNTS RECEIVABLE

The Association's accounts receivable represents payments due from delinquent homeowners. The balances are from a few homeowners, some of whom are seriously delinquent. The Association anticipates collecting these balances through its collection efforts, including filing liens and legal actions against these homeowners. The collection of these amounts will be affected by the foreclosure of liens superior to the lien by the homeowner's association such as mortgage lien holders, delinquent property tax liens, and/or bankruptcies by the homeowners.

When the assessments are deemed not collectible, the Association estimates and records an "allowance for bad debt". Generally accepted accounting principles require that the allowance method be used to recognize bad debts.

As of December 31, 2009 and 2008 the Association had assessments receivable of \$93,111 and \$196,091 respectively, and provided for an allowance for bad debt of 0 and \$114,074 respectively. During the year ended December 31, 2009, the Association wrote off a total of \$155,972 of which \$41,898 is reflected as write offs and adjustments and \$114,074 were offset against allowance for doubtful accounts.

4. FEDERAL INCOME TAXES

Homeowners' Associations may be taxed either as Homeowners' Associations or regular Corporations.

As a regular Corporation, membership income is exempt from taxation if the required elections are made (such as returning to homeowners excess funds or reducing future assessments). Then the Association is taxed only on its non-membership income (such as interest earnings) at regular federal corporate income tax rates. The Corporate tax rates are graduated based on income levels from a minimum of 15% to a maximum rate of 39%.

As a Homeowners' Association, the Association is taxed on its non-exempt function income (such as interest earnings) at a flat rate of 30%. Exempt function income, which consists primarily of member assessments, is not taxable.

The Association elected to file its tax return as a Homeowners' Association for the year ended December 31, 2009.

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

5. MEMO CAPTIONS

The "Memo" captions, when used on the columns of the combined statements, means totals are presented as an overview and for informational purposes only. They present the financial position, results of operations and statement of cash flows for the Association as a whole but do not present in detail the amounts of the various funds.

6. REPLACEMENT FUNDING PROGRAM

The Association is responsible for repairs and replacement of common property. The support provided by the owners towards these expenses are segregated and accounted for as capital reserve or replacement funds. These funds are held in separate investment accounts, and are generally not used for normal operating expenses.

An independent study to determine the costs and funding program for the replacement of the Association's common areas has not been conducted. Accordingly, the current program may not be sufficient to meet all future replacement costs. Therefore, when replacement funds are needed, the Association, pursuant to the by-laws, may have to increase the monthly assessments, pass special assessments, borrow, or delay replacement until funds are available.

SUPPLEMENTAL SCHEDULES

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
PER HOMEOWNER AND AS PERCENTAGE OF ASSESSMENTS
For The Year Ended December 31, 2009

	Amount	Average Per Year	Average Per Month	%age of Fees
Assessments and Revenues				
Maintenance fees	\$471,039	\$2,803.80	\$233.65	102.69%
Write-offs and adjustments	(41,898)	(249.39)	(20.78)	-9.13%
Proceeds from sale of units	4,500	26.79	2.23	0.98%
Late fees, penalties and other assessments	14,028	83.50	6.96	3.06%
Interest income	963	5.73	0.48	0.21%
Other income	10,062	59.89	4.99	2.19%
Total assessments and revenues	458,694	2,730.32	227.53	100.00%
Administrative expenses				
Management fees	22,176	132.00	11.00	4.83%
Legal fees - corporate	806	4.80	0.40	0.18%
Collection and legal fees, net of recovery	18,146	108.01	9.00	3.96%
Professional fees - audit	120	0.71	0.06	0.03%
Administrative expenses	16,482	98.11	8.18	3.59%
Total contract administrative expenses	57,730	343.63	28.64	12.59%
Contract services				
Pool	4,621	27.51	2.29	1.01%
Landscape contract	-	-	-	0.00%
Trash services	12,849	76.48	6.37	2.80%
Security services	69,410	413.15	34.43	15.13%
Total contract services	86,880	517.14	43.10	18.94%
Utilities				
Telephone	822	4.89	0.41	0.18%
Gas	57,139	340.11	28.34	12.46%
Electricity	18,817	112.01	9.33	4.10%
Water and sewer	115,419	687.02	57.25	25.16%
Total utilities	192,197	1,139.14	94.93	41.90%
General maintenance and repairs	38,787	230.88	19.24	8.46%
Insurance	54,552	324.71	27.06	11.89%
Capital improvements and replacements	42,133	250.79	20.90	9.19%
Total expenses	507,880	3,018	252	110.72%
Net assessments and revenues over expenses	(\$49,186)	(\$292.77)	(\$1.66)	-10.72%

*The foregoing notes are an integral
part of these financial statements*

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.
COMPARISON OF ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2009

	Actual	Budget	Variance F (UF)
Assessments and Revenues			
Maintenance fees	\$471,039	\$470,004	\$1,035
Write-offs and adjustments	(41,898)	-	(41,898)
Proceeds from sale of units	4,500	-	4,500
Late fees, penalties and other assessments	14,028	3,600	10,428
Interest income	963	-	963
Other income	10,062	-	10,062
Total assessments and revenues	458,694	473,604	(14,910)
Administrative expenses			
Management fees	22,176	23,280	1,104
Legal fees - corporate	806	-	(806)
Collection and legal fees, net of recovery	18,146	12,000	(6,146)
Professional fees - audit	120	2,100	1,980
Administrative expenses	16,482	14,208	(2,274)
Total contract administrative expenses	57,730	51,588	(6,142)
Contract services			
Pool	4,621	4,620	(1)
Water softner		4,560	4,560
Trash services	12,849	12,792	(57)
Security services	69,410	66,924	(2,486)
Pest control	-	1,800	1,800
Total contract services	86,880	90,696	3,816
Utilities			
Telephone	822	1,200	378
Gas	57,139	54,000	(3,139)
Electricity	18,817	33,000	14,183
Water and sewer	115,419	90,000	(25,419)
Total utilities	192,197	178,200	(13,997)
General maintenance and repairs	38,787	40,080	1,293
Personnel expenses	35,601	51,780	16,179
Insurance	54,552	56,400	1,848
Capital improvements and replacements	42,133	4,860	(37,273)
Total expenses	507,880	473,604	(34,276)
Net assessments and revenues over expenses	(\$49,186)	\$0	(\$49,186)

*The foregoing notes are an integral
part of these financial statements*

HOMEOWNERS ASSOCIATION OF FORUM PARK III TOWNHOMES, INC.

ANALYSIS OF

ASSESSMENTS, REVENUES AND EXPENSES

For The Year Ended December 31, 2009 and 2008

	31-Dec-09	Memo 31-Dec-08
Assessments and Revenues		
Maintenance fees	\$471,039	\$470,004
Write-offs and adjustments	(41,898)	(4,548)
Proceeds from sale of units	4,500	-
Late fees, penalties and other assessments	14,028	3,299
Interest income	963	414
Other income	10,062	120
Total assessments and revenues	458,694	469,289
Administrative expenses		
Management fees	22,176	22,636
Legal fees - corporate	806	35
Collection and legal fees, net of recovery	18,146	3,432
Professional fees - audit	120	2,100
Administrative expenses	16,482	6,626
Total administrative expenses	57,730	34,829
Contract services		
Pool	4,621	4,412
Landscape contract	-	25,347
Trash services	12,849	16,071
Security services	69,410	63,890
Total contract services	86,880	109,720
Utilities		
Telephone	822	1,070
Gas	57,139	71,631
Electricity	18,817	12,210
Water and sewer	115,419	115,619
Total utilities	192,197	200,530
General maintenance and repairs	38,787	49,580
Personnel expenses	35,601	-
Insurance	54,552	82,543
Capital improvements and replacements	42,133	44,369
Total expenses	507,880	521,571
Net assessments and revenues over expenses	(\$49,186)	(\$52,282)

The foregoing notes are an integral part of these financial statements