

**STONEHENGE LAKE SECTION**  
**HOMEOWNERS ASSOCIATION, INC**

**REPORT ON AUDIT OF**  
**FINANCIAL STATEMENTS**

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

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC**

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NAGESH & CARTER, PLLC

Certified Public Accountants

2000 Dairy Ashford, Suite 360, Houston, TX 77077

Telephone (281) 584-9922, Fax (281) 584-9933

E-Mail: [ks@nagesh-cpa.com](mailto:ks@nagesh-cpa.com)



**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Members of the

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC**

We have audited the accompanying Balance Sheets of STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, 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 STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, 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.

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, 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 11 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

July 8, 2010

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STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

As of December 31, 2009 and 2008

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	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-09	Memo Totals 31-Dec-08
<b><u>ASSETS</u></b>					
Cash	\$43,405	\$40,699	-	\$84,104	\$67,756
Certificate of deposit	-	8,593	-	8,593	8,529
Accounts receivable	167	-	-	167	6,389
Other current assets	1,745	-	-	1,745	1,283
Land	-	-	\$162,000	162,000	162,000
<b>Total assets</b>	<b>\$45,317</b>	<b>\$49,292</b>	<b>\$162,000</b>	<b>\$256,609</b>	<b>\$245,957</b>

**LIABILITIES AND FUND BALANCE**

<b>Liabilities</b>					
Prepaid assessments	\$38,609	-	-	\$38,609	\$33,908
<b>Total liabilities</b>	<b>38,609</b>	<b>-</b>	<b>-</b>	<b>38,609</b>	<b>33,908</b>
<b>Fund balance</b>	<b>6,708</b>	<b>\$49,292</b>	<b>\$162,000</b>	<b>218,000</b>	<b>212,049</b>
<b>Total liabilities and fund balance</b>	<b>\$45,317</b>	<b>\$49,292</b>	<b>\$162,000</b>	<b>\$256,609</b>	<b>\$245,957</b>

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

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**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**AND**  
**CHANGES IN FUND BALANCES**  
**For the Years Ended December 31, 2009 and 2008**

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-09	Memo Totals 31-Dec-08
<b>Assessments and revenues</b>					
Maintenance fees	\$85,261	-	-	\$85,261	\$77,501
Late fees & penalties	508	-	-	508	699
Transmitters/cards and other income	625	-	-	625	635
Write-offs and adjustments	118	-	-	118	645
Interest income	-	\$381	-	381	708
Funding for capital reserve expenses	(15,076)	15,076	-	-	-
<b>Total revenues</b>	<b>71,436</b>	<b>15,457</b>	<b>-</b>	<b>86,893</b>	<b>80,188</b>
<b>Operating expenses</b>					
Administrative expenses	12,490	-	-	12,490	12,931
Contract services	27,148	-	-	27,148	25,219
Facilities maintenance	4,853	-	-	4,853	3,196
Utilities	10,643	-	-	10,643	9,500
Insurance	9,199	-	-	9,199	7,084
Repairs	4,202	-	-	4,202	12,912
Renovations and improvements	-	12,407	-	12,407	2,280
<b>Total expenses</b>	<b>68,535</b>	<b>12,407</b>	<b>-</b>	<b>80,942</b>	<b>73,122</b>
<b>Assessments and revenues over (under) expenses</b>	<b>2,901</b>	<b>3,050</b>	<b>-</b>	<b>5,951</b>	<b>7,066</b>
Fund balance, beginning of the year	3,807	46,242	\$ 162,000	212,049	204,983
<b>Fund balance, end of the year</b>	<b>\$6,708</b>	<b>\$49,292</b>	<b>\$162,000</b>	<b>\$218,000</b>	<b>\$212,049</b>

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-09	Memo Totals 31-Dec-08
<b>From (to) operations</b>					
Assessments and revenues over (under) expenses	\$2,901	\$3,050	-	\$5,951	\$7,066
<i>Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations</i>					
Accounts receivable	6,222	-	-	6,222	(6,389)
Prepaid insurance	(462)	-	-	(462)	(61)
Pre-paid assessments	4,701	-	-	4,701	6,329
<b>Total from operations</b>	<b>13,362</b>	<b>3,050</b>	<b>-</b>	<b>16,412</b>	<b>6,945</b>
<b>From (to) investments</b>					
Certificates of deposits	-	(64)	-	(64)	(152)
<b>Total from investments</b>	<b>-</b>	<b>(64)</b>	<b>-</b>	<b>(64)</b>	<b>(152)</b>
<b>Increase (decrease) in cash</b>	<b>13,362</b>	<b>2,986</b>	<b>-</b>	<b>16,348</b>	<b>6,793</b>
Cash, beginning of the year	30,043	37,713	-	67,756	60,963
Cash, end of the year	\$43,405	\$40,699	-	\$84,104	\$67,756

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2009 and 2008**

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**1. ORGANIZATION**

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on December 29, 1986.

The Association is the governing body for the homeowners of Stonehenge Lake Section Homeowners, a 162 unit sub-division in Houston, Texas. The purpose of the Association is to maintain and protect the areas owned by the owner-in-common, such as streetlights, swimming pools, clubhouse, tennis courts, landscaping and other recreational 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.

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2009 and 2008**

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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 records bad debts using the direct write off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts. The management of the Association however, believes that the net uncollectible assessments from any one year is insignificant, and the effect of using the direct write off method is not materially different from the results that would have been obtained under the allowance method.

As of December 31, 2009 and 2008 the Association had assessments receivable of \$167 and \$6,389 respectively. It is the opinion of the management that the Association will prevail against the homeowners whose assessments are delinquent and that the net uncollectible assessments from any one year is insignificant, and, accordingly no allowance for uncollectible accounts is deemed necessary.

**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.



**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2009 and 2008**

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

**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**

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Year Ended December 31, 2009**

	Actual	%age	Average Per Home
<b>Assessments and revenues</b>			
Maintenance fees	\$85,261	100.00%	\$526.30
Late fees & penalties	508	0.60%	3.14
Transmitters/cards and other income	625	0.73%	3.86
Write-offs and adjustments	118	0.14%	0.73
Interest income	381	0.45%	2.35
<b>Total revenues</b>	<b>86,893</b>	<b>101.91%</b>	<b>536.38</b>
<b>Administrative Expenses</b>			
Professional management	9,000	10.56%	55.56
Professional fees - auditing	950	1.11%	5.86
Professional fees - legal, net of recovery	(3,562)	-4.18%	(21.99)
Office supplies and postage	6,007	7.05%	37.08
Property and other taxes	28	0.03%	0.17
Community events	67	0.08%	67
<b>Total administrative expenses</b>	<b>12,490</b>	<b>14.65%</b>	<b>77.10</b>
<b>Contract services</b>			
Landscape contract	12,146	14.25%	74.98
Trash removal	14,304	16.78%	88.30
Mosquito control	698	0.82%	4.31
<b>Total contract services</b>	<b>27,148</b>	<b>31.84%</b>	<b>167.58</b>
<b>Facilities maintenance</b>			
Lake management	593	0.70%	3.66
Landscape replacement	2,843	3.33%	17.55
Sprinkler system	101.00	0.12%	0.62
Supplies and others	1,316	1.54%	8.12
<b>Total facilities maintenance</b>	<b>4,853</b>	<b>5.69%</b>	<b>29.96</b>
<b>Utilities</b>			
Electricity	8,465	9.93%	52.25
Water and sewer	1,176	1.38%	7.26
Telephone	1,002	1.18%	6.19
<b>Total utilities</b>	<b>10,643</b>	<b>12.48%</b>	<b>65.70</b>
<b>Insurance</b>	<b>9,199</b>	<b>10.79%</b>	<b>56.78</b>
<b>Repairs</b>	<b>4,202</b>	<b>4.93%</b>	<b>25.94</b>
<b>Capital reserve expenses</b>	<b>12,407</b>	<b>14.55%</b>	<b>76.59</b>
<b>Total expenses</b>	<b>80,942</b>	<b>94.93%</b>	<b>499.64</b>
<b>Net revenues over expenses</b>	<b>\$5,951</b>	<b>6.98%</b>	<b>\$36.73</b>

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**ACTUAL TO BUDGETED**  
**ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Year Ended December 31, 2009**

	Budget	Actual	Variance F (UF)
<b>Assessments and revenues</b>			
Maintenance fees	\$85,251	\$85,261	\$10
Late fees & penalties	90	508	418
Transmitters/cards and other income	-	625	625
Write-offs and adjustments	-	118	118
Interest income	-	381	381
<b>Total revenues</b>	<b>85,341</b>	<b>86,893</b>	<b>1,552</b>
<b>Administrative Expenses</b>			
Professional management	9,000	9,000	-
Professional fees - auditing	875	950	(75)
Professional fees - legal, net of recovery	7,080	(3,562)	10,642
Office supplies and postage	2,724	6,007	(3,283)
Property and other taxes	36	28	8
Community events	168	67	101
<b>Total administrative expenses</b>	<b>19,883</b>	<b>12,490</b>	<b>7,393</b>
<b>Contract services</b>			
Landscape contract	12,240	12,146	94
Trash removal	13,008	14,304	(1,296)
Mosquito control	1,200	698	502
<b>Total contract services</b>	<b>26,448</b>	<b>27,148</b>	<b>(700)</b>
<b>Facilities maintenance</b>			
Lake management	996	593	403
Landscape replacement	1,998	2,843	(845)
Sprinkler system	300	101	199
Supplies and others	522	1,316	(794)
<b>Total facilities maintenance</b>	<b>3,816</b>	<b>4,853</b>	<b>(1,037)</b>
<b>Utilities</b>			
Electricity	6,420	8,465	(2,045)
Water and sewer	1,404	1,176	228
Telephone	960	1,002	(42)
<b>Total utilities</b>	<b>8,784</b>	<b>10,643</b>	<b>(1,859)</b>
<b>Insurance</b>	<b>7,020</b>	<b>9,199</b>	<b>(2,179)</b>
<b>Repairs</b>	<b>4,314</b>	<b>4,202</b>	<b>112</b>
<b>Capital reserve expenses</b>	<b>15,076</b>	<b>12,407</b>	<b>2,669</b>
<b>Total expenses</b>	<b>\$85,341</b>	<b>80,942</b>	<b>4,399</b>
<b>Net revenues over expenses</b>	<b>-</b>	<b>\$5,951</b>	<b>\$5,951</b>

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**COMPARATIVE ANALYSIS ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Years Ended December 31, 2009 to 2005**

	2009	Memo 2008	Memo 2007	Memo 2006	Memo 2005
<b>Assessments and revenues</b>					
Maintenance fees	\$85,261	\$77,501	\$73,626	\$70,201	\$70,201
Late fees & penalties	508	699	21	535	75
Transmitters/cards and other income	625	635	975	450	800
Adjustments and write offs	118	645	130	(613)	(5,380)
Interest income	381	708	1,003	1,059	444
<b>Total revenues</b>	<b>86,893</b>	<b>80,188</b>	<b>75,755</b>	<b>71,632</b>	<b>66,140</b>
<b>Administrative Expenses</b>					
Professional management	9,000	9,000	8,300	7,800	7,800
Professional fees - auditing	950	875	900	850	875
Professional fees - legal, net of recovery	(3,562)	245	(65)	(2,838)	2,404
Office supplies and postage	6,007	2,637	2,675	3,285	2,544
Property and other taxes	28	28	33	33	46
Community activities	67	146	326	77	-
<b>Total administrative expenses</b>	<b>12,490</b>	<b>12,931</b>	<b>12,169</b>	<b>9,207</b>	<b>13,669</b>
<b>Contract services</b>					
Landscape contract	12,146	11,593	11,042	11,042	11,042
Trash removal	14,304	13,004	12,153	11,574	21,563
Extermination and Mosquito control	698	622	1,115	665	579
<b>Total contract services</b>	<b>27,148</b>	<b>25,219</b>	<b>24,310</b>	<b>23,281</b>	<b>33,184</b>
<b>Facilities maintenance</b>					
Lake management	593	390	1,961	977	736
Landscape replacement	2,843	1,685	-	75	200
Sprinkler system	101	27	1,232	458	170
Supplies and others	1,316	1,094	585	2,806	2,524
<b>Total facilities maintenance</b>	<b>4,853</b>	<b>3,196</b>	<b>3,778</b>	<b>4,316</b>	<b>3,630</b>
<b>Utilities</b>					
Electricity	8,465	7,220	6,005	6,387	4,536
Water and sewer	1,176	1,354	1,292	1,348	1,283
Telephone	1,002	926	897	882	825
<b>Total utilities</b>	<b>10,643</b>	<b>9,500</b>	<b>8,194</b>	<b>8,617</b>	<b>6,644</b>
<b>Insurance</b>	<b>9,199</b>	<b>7,084</b>	<b>6,746</b>	<b>7,224</b>	<b>6,963</b>
<b>Repairs</b>	<b>4,202</b>	<b>12,912</b>	<b>3,848</b>	<b>7,036</b>	<b>1,631</b>
<b>Renovations and improvements</b>	<b>12,407</b>	<b>2,280</b>	<b>39,750</b>	<b>4,892</b>	<b>6,458</b>
<b>Total expenses</b>	<b>80,942</b>	<b>73,122</b>	<b>98,795</b>	<b>64,573</b>	<b>72,179</b>
<b>Net revenues over expenses</b>	<b>\$5,951</b>	<b>\$7,066</b>	<b>(\$23,040)</b>	<b>\$7,059</b>	<b>(\$6,039)</b>

*The foregoing notes are an integral  
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**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.  
ANALYSIS OF CAPITAL RESERVE REQUIREMENTS**

As of December 31, 2009  
(Unaudited - See Independent Auditor's Report)

<b>Components</b>	<b>Estimated Life (Years)</b>	<b>Estimated Current Cost of Replacement</b>	<b>Estimated Annual Funding Requirement</b>	<b>Remaining Useful Life (Years)</b>	<b>Estimated Capital Reserve Requirement</b>	<b>Components of Fund Balance at Dec. 31, 2009</b>
Streets	40	\$63,050	\$1,576	18	\$34,672	\$20,256
Lake walls	30	25,000	833	3	22,491	13,140
Pump	5	8,000	1,600	-	8,000	4,674
Street lights	30	8,000	267	3	7,209	4,212
Access gates	5	15,000	3,000	1	12,000	7,012
<b>Totals</b>		<b>\$119,050</b>	<b>\$7,276</b>		<b>\$84,372</b>	<b>\$49,292</b>

<b>Balance, Capital reserve fund, December 31, 2009</b>	49,292
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<b>Estimated deficit</b>	<b>(\$35,080)</b>
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