

**STONEHENGE LAKE SECTION
HOMEOWNERS ASSOCIATION, INC**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Year Ended December 31, 2007

NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
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NAGESH & CARTER, PLLC

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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, 2007 and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances; 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 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 audits 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, 2007, and the results of its operations and its cash flows for the years then ended in conformity with the 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 7 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

March 26, 2008

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
As of December 31, 2007

ASSETS	Total	Operating Fund	Replacement Fund	Property Fund
Cash	\$60,963	\$21,482	\$39,481	-
Certificate of deposit	8,377	-	8,377	-
Other current assets	1,222	1,222	-	-
Land	162,000	-	-	162,000
Total assets	\$232,562	\$22,704	\$47,858	\$162,000

LIABILITIES AND FUND BALANCE

Liabilities

Prepaid assessments	\$27,579	\$27,579	-	-
Total liabilities	27,579	27,579	-	-
Fund balance	204,983	(4,875)	\$47,858	\$162,000
Total liabilities and fund balance	\$232,562	\$22,704	\$47,858	\$162,000

The accompanying notes are an integral part of these financial statements

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES
AND
CHANGES IN FUND BALANCES
For the Year Ended December 31, 2007

	Total	Operating Fund	Replacement Fund	Property Fund
Assessments and revenues				
Maintenance fees	\$73,626	\$73,626	-	-
Late fees & penalties	21	21	-	-
Transmitters/cards and other income	975	975	-	-
Write-offs and adjustments	130	130	-	-
Interest income	1,003	-	\$1,003	-
Funding for capital reserve expenses	-	(42,648)	42,648	-
Total revenues	75,755	32,104	43,651	-
Operating expenses				
Administrative expenses	12,169	12,169	-	-
Contract services	24,310	24,310	-	-
Facilities maintenance	3,778	3,778	-	-
Utilities	8,194	8,194	-	-
Insurance	6,746	6,746	-	-
Repairs	3,848	3,848	-	-
Renovations and improvements	39,750	-	39,750	-
Total expenses	98,795	59,045	39,750	-
Owners' support and revenues over (under) expenses	(23,040)	(26,941)	3,901	-
Fund balance, beginning of the year	228,023	22,066	43,957	\$ 162,000
Fund balance, end of the year	\$204,983	(\$4,875)	\$47,858	\$162,000

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

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2007

	Total	Operating Fund	Replacement Fund	Property Fund
From (to) operations				
Assessments and revenues over (under) expenses	(\$23,040)	(\$26,941)	\$3,901	-
Prepaid insurance	(254)	(254)	-	-
Pre-paid assessments	(917)	(917)	-	-
Total from operations	(24,211)	(28,112)	3,901	-
From (to) investments				
Certificates of deposits	(228)	-	(228)	-
Total from investments	(228)	-	(228)	-
Increase (decrease) in cash	(24,439)	(28,112)	3,673	-
Cash, beginning of the year	85,402	49,594	35,808	-
Cash, end of the year	\$60,963	\$21,482	\$39,481	-

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, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

STONEHENGE LAKE SECTION Homeowners Association, Inc., ("the Association") was incorporated in the State of Texas as a not-for-profit corporation in December 29, 1986 and began operations with the close of its first escrow.

The Association is the governing body for the homeowners of Stonehenge Lake Section Homeowners, a 162 units single-family residence residential 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.

All policy decisions are formulated by the Board of Directors ("the Board"). Major decisions are referred to the homeowners before any action is taken.

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 replacement funds.. The disbursements from the operating fund are generally at the discretion of the Board and are used for operating expenses. The disbursements from the replacement fund may only be utilized in accordance with the purposes established.

OWNERS ASSESSMENTS

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

CAPITALIZATION POLICY

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

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 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.

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, 2007.

"MEMO" CAPTIONS

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

STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

2. REPLACEMENT FUNDING PROGRAM

The Association is responsible for repairs and maintenance, including renovations, major repairs and replacement of common property. The support provided by the owners should include an amount to be set aside as funding for such future expenses.

An independent study to determine the funding program for the replacement of the Association common areas has not been conducted. Accordingly, the current program may not be sufficient to meet all future major repairs and replacement costs. Therefore, when replacement funds are needed, the Association 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, 2007

	Actual	%age	Per Home
Assessments and revenues			
Maintenance fees	\$73,626	100.00%	\$454.48
Late fees & penalties	21	0.03%	0.13
Transmitters/cards and other income	975	1.32%	6.02
Write-offs and adjustments	130	0.18%	0.80
Interest income	1,003	1.36%	6.19
Total revenues	75,755	102.89%	467.62
Administrative Expenses			
Professional management	8,300	11.27%	51.23
Professional fees - auditing	900	1.22%	5.56
Professional fees - legal, net of recovery	(65)	-0.09%	(0.40)
Office supplies and postage	2,675	3.63%	16.51
Property and other taxes	33	0.04%	0.20
Total administrative expenses	12,169	16.53%	75.12
Contract services			
Landscape contract	11,042	15.00%	68.16
Trash removal	12,153	16.51%	75.02
Mosquito control	1,115	1.51%	6.88
Total contract services	24,310	33.02%	150.06
Facilities maintenance			
Lake management	1,961	2.66%	12.10
Landscape replacement	0	0.00%	-
Supplies and others	585	0.79%	3.61
Total facilities maintenance	3,778	5.13%	23.32
Utilities			
Electricity	6,005	8.16%	37.07
Water and sewer	1,292	1.75%	7.98
Telephone	897	1.22%	5.54
Total utilities	8,194	11.13%	50.58
Insurance	6,746	9.16%	41.64
Repairs	3,848	5.23%	23.75
Capital reserve expenses	39,750	53.99%	245.37
Total expenses	98,795	134.18%	609.85
Net revenues over expenses	-\$23,040	-31.29%	(\$142.22)

*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, 2007

	Budget	Actual	Variance F (UF)
Assessments and revenues			
Maintenance fees	\$73,626	\$73,626	-
Late fees & penalties	200	21	(\$179)
Transmitters/cards and other income	200	975	775
Write-offs and adjustments	100	130	30
Interest income	200	1,003	803
Total revenues	74,326	75,755	1,429
Administrative Expenses			
Professional management	7,800	8,300	(500)
Professional fees - auditing	900	900	-
Professional fees - legal, net of recovery	600	(65)	665
Office supplies and postage	2,950	2,675	275
Property and other taxes	100	33	67
Community events	100	326	(226)
Total administrative expenses	12,450	12,169	281
Contract services			
Landscape contract	11,000	11,042	(42)
Trash removal	11,000	12,153	(1,153)
Mosquito control	800	1,115	(315)
Total contract services	22,800	24,310	(1,510)
Facilities maintenance			
Lake management	3,500	1,961	1,539
Landscape replacement	200	-	200
Sprinkler system	500	1,232	(732)
Supplies and others	1,800	585	1,215
Total facilities maintenance	6,000	3,778	2,222
Utilities			
Electricity	6,400	6,005	395
Water and sewer	1,300	1,292	8
Telephone	900	897	3
Total utilities	8,600	8,194	406
Insurance	6,700	6,746	(46)
Repairs	5,900	3,848	2,052
Capital reserve expenses	11,874	39,750	(27,876)
Total expenses	74,324	98,795	(24,471)
Net revenues over expenses	\$2	(\$23,040)	(\$23,042)

*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, 2007 to 2003

	<u>2007</u>	Memo <u>2006</u>	Memo <u>2005</u>	Memo <u>2004</u>	Memo <u>2003</u>
Assessments and revenues					
Maintenance fees	\$73,626	\$70,201	\$70,201	\$70,201	\$70,201
Late fees & penalties	21	535	75	572	89
Transmitters/cards and other income	975	450	800	220	-
Write-offs and adjustments	130	(613)	(5,380)	(62)	-
Interest income	1,003	1,059	444	198	211
Total revenues	75,755	71,632	66,140	71,129	70,501
Administrative Expenses					
Professional management	8,300	7,800	7,800	7,800	7,800
Professional fees - auditing	900	850	875	850	850
Professional fees - legal, net of recovery	(65)	(2,838)	2,404	2,233	764
Office supplies and postage	2,675	3,285	2,544	2,579	2,522
Property and other taxes	33	33	46	(3,675)	3,942
Community activities	326	77	-	-	156
Total administrative expenses	12,169	9,207	13,669	9,787	16,034
Contract services					
Landscape contract	11,042	11,042	11,042	9,218	7,599
Trash removal	12,153	11,574	21,563	10,052	5,405
Mosquito control	1,115	665	579	515	434
Patrol services	-	-	-	-	-
Total contract services	24,310	23,281	33,184	19,785	13,438
Facilities maintenance					
Lake management	1,961	977	736	1,452	950
Landscape replacement	-	75	200	7,001	2,849
Sprinkler system	1,232	458	170	-	2,693
Supplies and others	585	2,806	2,524	843	2,322
Total facilities maintenance	3,778	4,316	3,630	9,296	8,814
Utilities					
Electricity	6,005	6,387	4,536	4,229	4,190
Water and sewer	1,292	1,348	1,283	1,291	1,156
Telephone	897	882	825	850	846
Total utilities	8,194	8,617	6,644	6,370	6,192
Insurance	6,746	7,224	6,963	7,087	6,611
Repairs	3,848	7,036	1,631	5,011	2,918
Renovations and improvements	39,750	4,892	6,458	6,902	11,403
Interest expenses	-	-	-	-	-
Total expenses	98,795	64,573	72,179	64,238	65,410
Net revenues over expenses	(\$23,040)	\$7,059	(\$6,039)	\$6,891	\$5,091

*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, 2002 to 1995

	Memo 2002	Memo 2001	Memo 2000	Memo 1999	Memo 1998	Memo 1997	Memo 1996	Memo 1995
Assessments and revenues								
Maintenance fees	\$70,201	\$70,290	\$70,239	\$66,086	\$66,407	\$67,662	\$58,880	\$58,805
Late fees & penalties	288	1,752	198	213	167	481	431	305
Transmitters/cards and other income	-	-	-	-	-	-	-	-
Write-offs and adjustments	-	-	-	-	-	-	-	-
Interest income	730	844	989	464	449	796	1,107	1,000
Total revenues	71,219	72,886	71,426	66,763	67,023	68,939	60,418	60,110
Administrative Expenses								
Professional management	7,800	7,800	7,800	7,800	7,200	7,200	6,600	5,400
Professional fees - auditing	850	850	850	850	850	850	850	785
Professional fees - legal, net of recovery	283	159	883	1,511	3,720	4,884	1,871	811
Office supplies and postage	2,564	3,924	3,137	3,048	3,457	3,559	3,453	3,447
Property and other taxes	4,406	15,690	9,225	6,100	449	5,140	1,968	1,948
Community activities	123	-	-	-	(100)	100	174	673
Total administrative expenses	16,026	28,423	21,895	19,309	15,576	21,733	14,916	13,064
Contract services								
Landscape contract	7,599	7,599	7,599	7,636	7,469	7,410	6,495	5,277
Trash removal	5,405	5,350	4,656	4,141	4,140	4,140	4,140	4,141
Mosquito control	660	386	483	274	532	580	537	467
Patrol services	-	-	-	-	-	-	6,495	6,495
Total contract services	13,664	13,335	12,738	12,051	12,141	12,130	17,667	16,380
Facilities maintenance								
Lake management	2,425	227	218	-	-	-	834	147
Landscape replacement	2,321	1,600	2,781	2,247	1,659	3,684	827	653
Sprinkler system	345	302	-	847	355	341	587	76
Supplies and others	3,510	562	2,172	3,339	3,227	2,586	1,333	1,995
Total facilities maintenance	8,601	2,691	5,171	6,433	5,241	6,611	3,581	2,871
Utilities								
Electricity	3,758	4,369	3,680	3,043	2,699	2,609	2,225	2,255
Water and sewer	1,005	924	1,027	760	907	618	1,090	649
Telephone	855	840	842	805	585	-	24	-
Total utilities	5,618	6,133	5,549	4,608	4,191	3,227	3,339	2,904
Insurance	5,007	4,740	5,037	4,317	4,326	4,406	4,235	3,069
Repairs	4,285	1,873	2,161	7,031	7,332	4,555	4,649	4,349
Renovations and improvements	1,312	2,449	17,553	1,930	10,629	21,610	5,642	-
Interest expenses	-	-	249	803	1,254	2,022	2,401	1,438
Total expenses	54,513	59,644	70,353	56,482	60,690	76,294	56,430	44,075
Net revenues over expenses	\$16,706	\$13,242	\$1,073	\$10,281	\$6,333	(\$7,355)	\$3,988	\$16,035

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