

**STONEHENGE LAKE SECTION  
HOMEOWNERS ASSOCIATION, INC**

**REPORT ON AUDIT OF  
FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2008**

NAGESH & CARTER, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
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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, 2008 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, 2008, and the results of its operations and its cash flows for the year 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 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***

May 9, 2009

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STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEETS

As of December 31, 2008 and 2007

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	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
<b>ASSETS</b>					
Cash	\$30,043	\$37,713	-	\$67,756	\$60,963
Certificate of deposit	-	8,529	-	8,529	8,377
Accounts receivable	6,389	-	-	6,389	-
Other current assets	1,283	-	-	1,283	1,222
Land	-	-	162,000	162,000	162,000
<b>Total assets</b>	<b>\$37,715</b>	<b>\$46,242</b>	<b>\$162,000</b>	<b>\$245,957</b>	<b>\$232,562</b>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>Liabilities</b>					
Prepaid assessments	\$33,908	-	-	\$33,908	\$27,579
<b>Total liabilities</b>	<b>33,908</b>	<b>-</b>	<b>-</b>	<b>33,908</b>	<b>27,579</b>
<b>Fund balance</b>	<b>3,807</b>	<b>\$46,242</b>	<b>\$162,000</b>	<b>212,049</b>	<b>204,983</b>
<b>Total liabilities and fund balance</b>	<b>\$37,715</b>	<b>\$46,242</b>	<b>\$162,000</b>	<b>\$245,957</b>	<b>\$232,562</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, 2008 and 2007**

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
<b>Assessments and revenues</b>					
Maintenance fees	\$77,501	-	-	\$77,501	\$73,626
Late fees & penalties	699	-	-	699	21
Transmitters/cards and other income	635	-	-	635	975
Write-offs and adjustments	645	-	-	645	130
Interest income	-	\$708	-	708	1,003
Funding for capital reserve expenses	44	(44)	-	-	-
<b>Total revenues</b>	<b>79,524</b>	<b>664</b>	<b>-</b>	<b>80,188</b>	<b>75,755</b>
<b>Operating expenses</b>					
Administrative expenses	12,931	-	-	12,931	12,169
Contract services	25,219	-	-	25,219	24,310
Facilities maintenance	3,196	-	-	3,196	3,778
Utilities	9,500	-	-	9,500	8,194
Insurance	7,084	-	-	7,084	6,746
Repairs	12,912	-	-	12,912	3,848
Renovations and improvements	-	2,280	-	2,280	39,750
<b>Total expenses</b>	<b>70,842</b>	<b>2,280</b>	<b>-</b>	<b>73,122</b>	<b>98,795</b>
<b>Owners' support and revenues over (under) expenses</b>	<b>8,682</b>	<b>(1,616)</b>	<b>-</b>	<b>7,066</b>	<b>(23,040)</b>
Fund balance, beginning of the year	(4,875)	47,858	\$ 162,000	204,983	228,023
<b>Fund balance, end of the year</b>	<b>\$3,807</b>	<b>\$46,242</b>	<b>\$162,000</b>	<b>\$212,049</b>	<b>\$204,983</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, 2008 and 2007

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
<b>From (to) operations</b>					
Assessments and revenues					
over (under) expenses	\$8,682	(\$1,616)	-	\$7,066	(\$23,040)
Accounts receivable	(6,389)	-	-	(6,389)	-
Prepaid insurance	(61)	-	-	(61)	(254)
Pre-paid assessments	6,329	-	-	6,329	(917)
<b>Total from operations</b>	<b>8,561</b>	<b>(1,616)</b>	<b>-</b>	<b>6,945</b>	<b>(24,211)</b>
<b>From (to) investments</b>					
Certificates of deposits	-	(152)	-	(152)	(228)
<b>Total from investments</b>	<b>-</b>	<b>(152)</b>	<b>-</b>	<b>(152)</b>	<b>(228)</b>
<b>Increase (decrease) in cash</b>	<b>8,561</b>	<b>(1,768)</b>	<b>-</b>	<b>6,793</b>	<b>(24,439)</b>
Cash, beginning of the year	21,482	39,481	-	60,963	85,402
Cash, end of the year	\$30,043	\$37,713	-	\$67,756	\$60,963

*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, 2008**

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**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, 2008**

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**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, 2008.

**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, 2008**

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**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, 2008**

	Actual	%age	Average Per Home
<b>Assessments and revenues</b>			
Maintenance fees	\$77,501	100.00%	\$478.40
Late fees & penalties	699	0.90%	4.31
Transmitters/cards and other income	635	0.82%	3.92
Write-offs and adjustments	645	0.83%	3.98
Interest income	708	0.91%	4.37
<b>Total revenues</b>	<b>80,188</b>	<b>103.47%</b>	<b>494.99</b>
<b>Administrative Expenses</b>			
Professional management	9,000	11.61%	55.56
Professional fees - auditing	875	1.13%	5.40
Professional fees - legal, net of recovery	245	0.32%	1.51
Office supplies and postage	2,637	3.40%	16.28
Property and other taxes	28	0.04%	0.17
Community events	146	0.18%	146
<b>Total administrative expenses</b>	<b>12,931</b>	<b>16.68%</b>	<b>79.82</b>
<b>Contract services</b>			
Landscape contract	11,593	14.96%	71.56
Trash removal	13,004	16.78%	80.27
Mosquito control	622	0.80%	3.84
<b>Total contract services</b>	<b>25,219</b>	<b>32.54%</b>	<b>155.67</b>
<b>Facilities maintenance</b>			
Lake management	390	0.50%	2.41
Landscape replacement	1,685	2.17%	10.40
Sprinkler system	27.00	0.03%	0.17
Supplies and others	1,094	1.41%	6.75
<b>Total facilities maintenance</b>	<b>3,196</b>	<b>4.12%</b>	<b>19.73</b>
<b>Utilities</b>			
Electricity	7,220	9.32%	44.57
Water and sewer	1,354	1.75%	8.36
Telephone	926	1.19%	5.72
<b>Total utilities</b>	<b>9,500</b>	<b>12.26%</b>	<b>58.64</b>
<b>Insurance</b>	<b>7,084</b>	<b>9.14%</b>	<b>43.73</b>
<b>Repairs</b>	<b>12,912</b>	<b>16.66%</b>	<b>79.70</b>
<b>Capital reserve expenses</b>	<b>2,280</b>	<b>2.94%</b>	<b>14.07</b>
<b>Total expenses</b>	<b>73,122</b>	<b>94.35%</b>	<b>451.37</b>
<b>Net revenues over expenses</b>	<b>\$7,066</b>	<b>9.12%</b>	<b>\$43.62</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, 2008**

	Budget	Actual	Variance F (UF)
<b>Assessments and revenues</b>			
Maintenance fees	\$77,501	\$77,501	-
Late fees & penalties	60	699	\$639
Transmitters/cards and other income	-	635	635
Write-offs and adjustments	-	645	645
Interest income	-	708	708
<b>Total revenues</b>	<b>77,561</b>	<b>80,188</b>	<b>2,627</b>
<b>Administrative Expenses</b>			
Professional management	9,000	9,000	0
Professional fees - auditing	900	875	-
Professional fees - legal, net of recovery	360	245	115
Office supplies and postage	3,000	2,637	363
Property and other taxes	72	28	44
Community events	120	146	(26)
<b>Total administrative expenses</b>	<b>13,452</b>	<b>12,931</b>	<b>496</b>
<b>Contract services</b>			
Landscape contract	11,052	11,593	(541)
Trash removal	13,008	13,004	4
Mosquito control	1,200	622	578
<b>Total contract services</b>	<b>25,260</b>	<b>25,219</b>	<b>41</b>
<b>Facilities maintenance</b>			
Lake management	996	390	606
Landscape replacement	1,320	1,685.00	(365)
Sprinkler system	504	27	477
Supplies and others	90	1,094	(1,004)
<b>Total facilities maintenance</b>	<b>2,910</b>	<b>3,196</b>	<b>(286)</b>
<b>Utilities</b>			
Electricity	6,420	7,220	(800)
Water and sewer	1,320	1,354	(34)
Telephone	900	926	(26)
<b>Total utilities</b>	<b>8,640</b>	<b>9,500</b>	<b>(860)</b>
<b>Insurance</b>	<b>6,744</b>	<b>7,084</b>	<b>(340)</b>
<b>Repairs</b>	<b>4,788</b>	<b>12,912</b>	<b>(8,124)</b>
<b>Capital reserve expenses</b>	<b>15,767</b>	<b>2,280</b>	<b>13,487</b>
<b>Total expenses</b>	<b>77,561</b>	<b>73,122</b>	<b>4,414</b>
<b>Net revenues over expenses</b>	<b>\$0</b>	<b>\$7,066</b>	<b>\$7,041</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, 2008 to 2003**

	2008	Memo 2007	Memo 2006	Memo 2005	Memo 2004	Memo 2003
<b>Assessments and revenues</b>						
Maintenance fees	\$77,501	\$73,626	\$70,201	\$70,201	\$70,201	\$70,201
Late fees & penalties	699	21	535	75	572	89
Transmitters/cards and other income	635	975	450	800	220	-
Adjustments and write offs	645	130	(613)	(5,380)	(62)	-
Interest income	708	1,003	1,059	444	198	211
<b>Total revenues</b>	<b>80,188</b>	<b>75,755</b>	<b>71,632</b>	<b>66,140</b>	<b>71,129</b>	<b>70,501</b>
<b>Administrative Expenses</b>						
Professional management	9,000	8,300	7,800	7,800	7,800	7,800
Professional fees - auditing	875	900	850	875	850	850
Professional fees - legal, net of recovery	245	(65)	(2,838)	2,404	2,233	764
Office supplies and postage	2,637	2,675	3,285	2,544	2,579	2,522
Property and other taxes	28	33	33	46	(3,675)	3,942
Community activities	146	326	77	-	-	156
<b>Total administrative expenses</b>	<b>12,931</b>	<b>12,169</b>	<b>9,207</b>	<b>13,669</b>	<b>9,787</b>	<b>16,034</b>
<b>Contract services</b>						
Landscape contract	11,593	11,042	11,042	11,042	9,218	7,599
Trash removal	13,004	12,153	11,574	21,563	10,052	5,405
Extermination and Mosquito control	622	1,115	665	579	515	434
Patrol services	-	-	-	-	-	-
<b>Total contract services</b>	<b>25,219</b>	<b>24,310</b>	<b>23,281</b>	<b>33,184</b>	<b>19,785</b>	<b>13,438</b>
<b>Facilities maintenance</b>						
Lake management	390	1,961	977	736	1,452	950
Landscape replacement	1,685	-	75	200	7,001	2,849
Sprinkler system	27	1,232	458	170	-	2,693
Supplies and others	1,094	585	2,806	2,524	843	2,322
<b>Total facilities maintenance</b>	<b>3,196</b>	<b>3,778</b>	<b>4,316</b>	<b>3,630</b>	<b>9,296</b>	<b>8,814</b>
<b>Utilities</b>						
Electricity	7,220	6,005	6,387	4,536	4,229	4,190
Water and sewer	1,354	1,292	1,348	1,283	1,291	1,156
Telephone	926	897	882	825	850	846
<b>Total utilities</b>	<b>9,500</b>	<b>8,194</b>	<b>8,617</b>	<b>6,644</b>	<b>6,370</b>	<b>6,192</b>
<b>Insurance</b>	<b>7,084</b>	<b>6,746</b>	<b>7,224</b>	<b>6,963</b>	<b>7,087</b>	<b>6,611</b>
<b>Repairs</b>	<b>12,912</b>	<b>3,848</b>	<b>7,036</b>	<b>1,631</b>	<b>5,011</b>	<b>2,918</b>
<b>Renovations and improvements</b>	<b>2,280</b>	<b>39,750</b>	<b>4,892</b>	<b>6,458</b>	<b>6,902</b>	<b>11,403</b>
<b>Total expenses</b>	<b>73,122</b>	<b>98,795</b>	<b>64,573</b>	<b>72,179</b>	<b>64,238</b>	<b>65,410</b>
<b>Net revenues over expenses</b>	<b>\$7,066</b>	<b>(\$23,040)</b>	<b>\$7,059</b>	<b>(\$6,039)</b>	<b>\$6,891</b>	<b>\$5,091</b>

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

**STONEHENGE LAKE SECTION HOMEOWNERS ASSOCIATION, INC.**  
**ANALYSIS OF CAPITAL RESERVE REQUIREMENTS**  
As of December 31, 2008  
(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, 2008</b>
Streets	40	\$63,050	\$1,576	\$19	\$33,096	\$19,447
Lake walls	30	25,000	833	4	21,658	12,726
Pump	5	8,000	1,600	-	8,000	4,701
Street lights	30	8,000	267	4	6,942	4,079
Access gates	5	15,000	3,000	2	9,000	5,289
<b>Totals</b>		<b>\$119,050</b>	<b>\$7,276</b>		<b>\$78,696</b>	<b>\$46,242</b>

<b>Balance, Capital reserve fund, December 31, 2008</b>	46,242
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<b>Estimated deficit</b>	<b>(\$32,454)</b>
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