

CEDAR MILL CONDOMINIUM
HOMEOWNERS ASSOCIATION, INC

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

For the Year Ended
December 31, 2009

NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CEDAR MILL CONDOMINIUM 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

CEDAR MILL CONDOMINIUM HOMEOWNERS ASSOCIATION, INC

We have audited the accompanying Balance Sheets of CEDAR MILL CONDOMINIUM 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 CEDAR MILL CONDOMINIUM 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.

CEDAR MILL CONDOMINIUM 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 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

March 23, 2010

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.

BALANCE SHEETS

As of December 31, 2009 and 2008

	Operating Fund	Replacement Fund	Totals 31-Dec-09	Memo Totals 31-Dec-08
<u>ASSETS</u>				
Current Assets				
Cash	\$29,233	\$260,521	\$289,754	\$184,579
Certificate of deposits	-	-	-	100,000
Accounts receivable	17,241	-	17,241	11,284
Prepaid Insurance	42,436	-	42,436	24,651
<hr/>				
Total assets	\$88,910	\$260,521	\$349,431	\$320,514

LIABILITIES AND FUND BALANCE

Current liabilities				
Prepaid assessments	\$12,406	\$0	\$12,406	\$21,026
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Total current liabilities	\$12,406	\$0	\$12,406	\$21,026
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Fund balance	76,504	260,521	337,025	299,488
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Total liabilities and fund balance	\$88,910	\$260,521	\$349,431	\$320,514

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

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES
AND CHANGES IN FUND BALANCE
For The Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	Totals 31-Dec-09	Totals 31-Dec-08
Assessments and revenues				
Maintenance fees	\$615,357	-	\$615,357	\$615,357
Adjustments and write offs	(928)	-	(928)	(20,911)
Interest income	-	\$1,657	1,657	2,171
Late fees	1,749	-	1,749	1,660
Proceeds from sale of units	-	-	-	30,300
Other income	945	-	945	1,182
Capital reserve transfers	(35,844)	35,844	-	-
Total revenues	581,279	37,501	618,780	629,759
Operating expenses				
Administrative expenses	64,972	-	64,972	57,389
Contract services	90,589	-	90,589	80,976
Building maintenance	122,248	-	122,248	121,626
Utilities	198,618	-	198,618	221,481
Insurance	76,546	-	76,546	85,072
Repairs	16,922	-	16,922	18,194
Renovations and improvements	-	11,348	11,348	3,500
Total expenses	569,895	11,348	581,243	588,238
Assessments and Revenues over (under) expenses	11,384	26,153	37,537	41,521
Fund balance, beginning of the year	65,120	234,368	299,488	257,967
Fund balance, end of the year	\$76,504	\$260,521	\$337,025	\$299,488

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

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	Totals 31-Dec-09	Totals 31-Dec-08
From (to) operations				
Assessments and revenues over (under) expenses	\$11,384	\$26,153	\$37,537	\$41,521
Accounts receivable	(5,957)	-	(5,957)	24,347
Prepaid insurance	(17,785)	-	(17,785)	13,539
Prepaid assessments	(8,620)	-	(8,620)	3,476
Total from operations	(20,978)	26,153	5,175	82,883
From (to) investments				
Certificates of deposits	-	100,000	100,000	(100,000)
Total from investments	-	100,000	100,000	(100,000)
Increase (decrease) in cash	(20,978)	126,153	105,175	(17,117)
Cash, beginning of the year	50,211	134,368	184,579	201,696
Cash, end of the year	\$29,233	\$260,521	\$289,754	\$184,579

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part of these financial statements*

CEDAR MILL CONDOMINIUM HOMEOWNERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

1. ORGANIZATION

CEDAR MILL CONDOMINIUM HOMEOWNERS ASSOCIATION, INC ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on May 26, 1978 and began operations with the close of its first escrow.

The Association is the governing body for the homeowners of Cedar Mill Condominium Homeowners' Association, Inc., a 216 unit condominium complex in Houston, Texas. The purpose for which this Association is organized is to provide for the administration, management, maintenance, preservation, and control of the Cedar Mill Condominiums.

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.

CEDAR MILL CONDOMINIUM HOMEOWNERS ASSOCIATION, 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 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 \$17,241 and \$11,284 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.

CEDAR MILL CONDOMINIUM HOMEOWNERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

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

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2009

	Actual	%age	Average Per Home Per Month
Assessments and revenues			
Maintenance fees	\$615,357	99.45%	\$237.41
Late fees and other assessments	1,749	0.28%	0.67
Proceeds from sale of units	-	0.00%	0.00
Adjustments and write offs	(928)	-0.15%	(0.36)
Interest income	1,657	0.27%	0.64
Other income	945	0.15%	0.36
Total assessments and revenues	618,780	100.00%	\$238.73
Administrative Expenses			
Professional management	31,500	5.09%	12.15
Professional fees - auditing	1,450	0.23%	0.56
Professional fees - legal, net of recovery	22,652	3.66%	8.74
Office supplies and postage	9,370	1.51%	3.61
Total administrative expenses	64,972	10.50%	\$25.07
Contract services			
Water conditioner	4,440	0.72%	1.71
Trash removal	32,327	5.22%	12.47
Extermination and termite contract	779	0.13%	0.30
Patrol services	53,043	8.57%	20.46
Total contract services	90,589	14.64%	34.95
Building maintenance			
Payroll, taxes, and contract labor	102,195	16.52%	39.43
Supplies and other expenses	20,053	3.24%	7.74
Total building maintenance	122,248	19.76%	47.16
Utilities			
Electricity	21,186	3.42%	8.17
Water and sewer	119,136	19.25%	45.96
Gas	53,198	8.60%	20.52
Telephone	5,098	0.82%	1.97
Total utilities	198,618	32.10%	76.63
Insurance	76,546	12.37%	29.53
Repairs	16,922	2.73%	6.53
Renovations and improvements	11,348	1.83%	4.38
Total expenses	581,243	93.93%	224.24
Net assessments and revenues over expenses	\$37,537	6.07%	\$14.48

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

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.
COMPARISON OF ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2009

	Actual	Budget	Variance
Assessments and revenues			
Maintenance fees	\$615,357	\$615,336	\$21
Late fees and other assessments	1,749	1,200	549
Proceeds from sale of units	0	-	-
Adjustments and write offs	(928)	(12,000)	11,072
Interest income	1,657	1,200	457
Other income	945	300	645
Total assessments and revenues	618,780	606,036	12,744
Administrative Expenses			
Professional management	31,500	31,500	-
Professional fees - auditing	1,450	1,560	110
Professional fees - legal, net of recovery	22,652	9,600	(13,052)
Office supplies and postage	9,370	10,932	1,562
Total administrative expenses	64,972	53,592	(11,380)
Contract services			
Water conditioner	4,440	3,960	(480)
Trash removal	32,327	33,444	1,117
Pool maintenance	-	1,440	1,440
Extermination and termite contract	779	1,800	1,021
Patrol services	53,043	40,560	(12,483)
Total contract services	90,589	81,204	(9,385)
Building maintenance			
Payroll, taxes, and contract labor	102,195	100,080	(2,115)
Supplies and other expenses	20,053	17,820	(2,233)
Total building maintenance	122,248	117,900	(4,348)
Utilities			
Electricity	21,186	27,600	6,414
Water and sewer	119,136	130,800	11,664
Gas	53,198	66,000	12,802
Telephone	5,098	4,980	(118)
Total utilities	198,618	229,380	30,762
Insurance	76,546	94,668	18,122
Repairs	16,922	23,100	6,178
Renovations and improvements	11,348	6,192	(5,156)
Total expenses	581,243	606,036	24,793
Net revenues over expenses	\$37,537	\$0	\$37,537

The foregoing notes are an integral part of these financial statements

CEDAR MILL CONDOMINIUM HOMEOWNERS' ASSOCIATION, INC.
COMPARATIVE ANALYSIS of ASSESSMENTS, REVENUES AND EXPENSES
For The Years Ended December 31, 2009 to 2005

	<u>2009</u>	<u>Memo 2008</u>	<u>Memo 2007</u>	<u>Memo 2006</u>	<u>Memo 2005</u>
Assessments and revenues					
Maintenance fees	\$615,357	\$615,357	\$707,628	\$615,336	\$574,500
Late fees and other assessments	1,749	1,660	1,949	1,952	3,153
Proceeds from sale of units	-	30,300	-	-	-
Adjustments and write offs	(928)	(20,911)	(9,001)	1,211	-
Interest income	1,657	2,171	1,379	2,869	1,523
Other income	945	1,182	1,551	599	1,299
Insurance proceeds	-	-	600,000	-	-
Total assessments and revenues	618,780	629,759	1,303,506	621,967	580,475
Administrative Expenses					
Professional management	31,500	31,500	31,500	31,500	32,500
Professional fees - auditing and accounting	1,450	1,235	1,525	1,250	1,538
Professional fees - legal, net of recovery	22,652	7,626	1,074	3,212	2,430
Office supplies and postage	9,370	17,028	7,959	6,121	9,371
Total administrative expenses	64,972	57,389	42,058	42,083	45,839
Contract services					
Water conditioner	4,440	3,960	3,960	3,960	3,660
Trash removal	32,327	33,374	31,089	30,654	28,669
Pool maintenance	-	-	-	-	-
Extermination and termite contract	779	411	574	1,656	2,685
Patrol services	53,043	43,231	41,466	92,672	34,065
Total contract services	90,589	80,976	77,089	128,942	69,079
Building maintenance					
Payroll, taxes and contract labor	102,195	106,358	95,277	87,159	88,497
Supplies and other expenses	20,053	15,268	15,397	13,817	18,975
Total building maintenance	122,248	121,626	110,674	100,976	107,472
Utilities					
Electricity	21,186	25,865	27,025	26,473	25,719
Water and sewer	119,136	124,388	113,611	106,719	119,231
Gas	53,198	66,165	58,863	44,193	50,613
Telephone	5,098	5,063	4,595	4,548	4,194
Total utilities	198,618	221,481	204,094	181,933	199,757
Insurance	76,546	85,072	71,271	57,858	43,862
Repairs	16,922	18,194	12,043	7,659	15,280
Interest expense	-	-	35,951	3,391	-
Legal fees - insurance litigation	-	-	61,720	50,274	-
Fire damage repairs	-	-	315,060	492,029	-
Renovations and improvements	11,348	3,500	20,353	84,644	19,602
Total expenses	581,243	588,238	950,313	1,149,789	500,891
Net assessments and revenues over expenses	\$37,537	\$41,521	\$353,193	(\$527,822)	\$79,584

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