

**FORUM PARK TOWNHOMES  
OWNERS' ASSOCIATION, INC.**

**REPORT ON AUDIT OF  
FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2006**

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**TABLE OF CONTENTS**

	<b><u>Pages</u></b>
Independent Auditor's Report	1
Balance Sheets	3
Statements of Assessments, Revenues, and Expenses, as well as Statements of Changes in Fund Balances	4
Statements of Cash Flows	5
Notes to Financial Statements	6
<b>Supplemental Schedules</b>	
Analysis of Assessments, Revenues and Expenses Per Homeowner and as Percentage of Assessments	9
Comparison of Actual to Budgeted Assessments, Revenues and Expenses	10
Comparative Analysis of Assessments, Revenues and Expenses for the Years Ended December 31, 2006 to 1998	11
Capital Expenses and Improvements	12

# **NAGESH & CARTER, PLLC**

**CERTIFIED PUBLIC ACCOUNTANTS**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Members of the  
**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**

We have audited the accompanying Balance Sheets of Forum Park Town Homes Owners' Association, Inc. as of December 31, 2006, and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances as well as the Statements of 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 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 Forum Park Town Homes Owners' Association, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Forum Park Town Homes Owners' 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

May 22, 2007

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**BALANCE SHEETS**  
**As of December 31, 2006**

	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash	\$54,023	\$32,203	\$21,820
Accounts receivable	37,607	37,607	-
Allowance for estimated uncollectible accounts	(6,900)	(6,900)	-
Other current assets	13,788	13,788	-
<b>Total assets</b>	<b>\$98,518</b>	<b>\$76,698</b>	<b>\$21,820</b>

**LIABILITIES AND FUND BALANCE**

<b>Current liabilities</b>			
Accounts payable	\$14,047	\$14,047	-
Prepaid assessments	5,343	5,343	-
<b>Total current liabilities</b>	<b>19,390</b>	<b>19,390</b>	<b>-</b>
<b>Fund balance</b>	<b>79,128</b>	<b>57,308</b>	<b>\$21,820</b>
<b>Total liabilities and fund balance</b>	<b>\$98,518</b>	<b>\$76,698</b>	<b>\$21,820</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**AND STATEMENTS OF CHANGES IN FUND BALANCES**  
**For The Year Ended December 31, 2006**

	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>
<b>Assessments and revenues</b>			
Maintenance fees	\$546,531	\$546,531	-
Late fees & penalties	1,877	1,877	-
Interest income	336	-	\$336
Transmitters/cards and other income	2,117	2,117	-
Capital reserve funding	-	(16,800)	16,800
<b>Total revenues</b>	<b>551,326</b>	<b>534,190</b>	<b>17,136</b>
<b>Operating expenses</b>			
Administrative expenses	56,932	56,932	-
Contract services	51,643	51,643	-
Building maintenance	123,455	123,455	-
Utilities	183,390	183,390	-
Insurance	63,570	63,570	-
Repairs	23,188	23,188	-
Capital reserve expenses	18,359	-	18,359
<b>Total expenses</b>	<b>520,537</b>	<b>502,178</b>	<b>18,359</b>
<b>Assessments and revenues over (under) expenses</b>	<b>30,789</b>	<b>32,012</b>	<b>(1,223)</b>
Fund balance, beginning of the year	48,339	25,296	23,043
<b>Fund balance, end of the year</b>	<b>\$79,128</b>	<b>\$57,308</b>	<b>\$21,820</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Year Ended December 31, 2006**

	<u>Total</u>	<u>Operating Fund</u>	<u>Capital Reserve Fund</u>
<b>From (to) operations</b>			
Assessments and revenues over (under) expenses	\$30,789	\$32,012	(\$1,223)
Accounts receivable	7,825	7,825	-
Prepaid insurance	197	197	-
Accounts payable	(5,489)	(5,489)	-
Pre-paid assessments	(3,195)	(3,195)	-
<b>Total from operations</b>	<b>30,127</b>	<b>31,350</b>	<b>(1,223)</b>
<b>Increase (decrease) in cash</b>	<b>30,127</b>	<b>31,350</b>	<b>(1,223)</b>
Cash, beginning of the year	23,896	853	23,043
<b>Cash, end of the year</b>	<b>\$54,023</b>	<b>\$32,203</b>	<b>\$21,820</b>

*The accompanying notes are an integral  
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**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2006**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION**

Forum Park Town Homes Owners' Association, Inc., ("the Association") was incorporated in the State of Texas as a not-for-profit corporation in February 9, 1979, and began operations with the close of its first escrow.

The Association is the governing body for the homeowners of Forum Park Town Homes Owners' Association, Inc., a 216-unit condominium complex in Houston, Texas. The purpose for which the Association is organized is to provide for and do all activities necessary, useful and expedient to protect, preserve, maintain and repair the common elements and limited common elements of the said condominium project for the use, enjoyment and benefit of the members of the corporation and to operate, administer and govern the common affairs and common fund of the members of the corporation in connection with said condominium project.

The affairs of the Association shall be managed by a Board of five (5) Directors elected by the Members. Subject to the provisions of the Articles of Incorporation, Directors need not be members of the Association.

**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 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 capital reserve 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.

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2006**

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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 certain complicated 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 low of 15% to a top 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 Years ended December 31, 2006 and 2005.

**RISKS AND UNCERTAINTIES**

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, etc., and bankruptcies by the homeowners.

**2. REPLACEMENT FUNDING PROGRAM**

The Association is responsible for the repair and maintenance (including major repairs and replacement) of common property such as, the clubhouse, swimming pool and tennis courts. 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's 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**

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Year Ended December 31, 2006**

	<b>Actual</b>	<b>%age</b>	<b>Per Home Per Month</b>
<b>Assessments and revenues</b>			
Maintenance fees	\$546,531	99.13%	\$210.85
Late fees & penalties	1,877	0.34%	0.72
Interest income	336	0.06%	0.13
Transmitters/cards and other income	2,117	0.38%	0.82
<b>Total revenues</b>	<b>551,326</b>	<b>100.00%</b>	<b>212.70</b>
<b>Administrative Expenses</b>			
Professional management	31,800	5.77%	12.27
Professional fees - auditing	1,350	0.24%	0.52
Professional fees - legal, net of recovery	6,912	1.25%	2.67
Payroll processing	2,082	0.38%	0.80
Office supplies and postage	13,236	2.40%	5.11
Property and other taxes	1,552	0.28%	0.60
<b>Total administrative expenses</b>	<b>56,932</b>	<b>10.33%</b>	<b>21.96</b>
<b>Contract services</b>			
Water conditioner	4,560	0.83%	1.76
Trash removal	24,016	4.36%	9.27
Extermination and termite contract	736	0.13%	0.28
Patrol services	22,331	4.05%	8.62
<b>Total contract services</b>	<b>51,643</b>	<b>9.37%</b>	<b>19.92</b>
<b>Building maintenance</b>			
Payroll, taxes and contract labor	78,724	14.28%	30.37
Supplies and other expenses	44,731	8.11%	17.26
<b>Total building maintenance</b>	<b>123,455</b>	<b>22.39%</b>	<b>47.63</b>
<b>Utilities</b>			
Electricity	22,891	4.15%	8.83
Water and sewer	85,694	15.54%	33.06
Gas	69,567	12.62%	26.84
Telephone	5,238	0.95%	2.02
<b>Total utilities</b>	<b>183,390</b>	<b>33.26%</b>	<b>70.75</b>
<b>Insurance</b>	<b>63,570</b>	<b>11.53%</b>	<b>24.53</b>
<b>Repairs</b>	<b>23,188</b>	<b>4.21%</b>	<b>8.95</b>
<b>Capital reserve expenses</b>	<b>18,359</b>	<b>3.33%</b>	<b>7.08</b>
<b>Total expenses</b>	<b>520,537</b>	<b>94.42%</b>	<b>200.82</b>
<b>Net revenue over expenses</b>	<b>\$ 30,789</b>	<b>5.58%</b>	<b>\$11.88</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**COMPARISON OF ACTUAL TO BUDGET**  
**ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Year Ended December 31, 2006**

	<b>Actual</b>	<b>Budget</b>	<b>Variance F (UF)</b>
<b>Assessments and revenues</b>			
Maintenance fees	\$546,531	\$543,792	\$2,739
Late fees & penalties	1,877	2,400	(523)
Interest income	336	240	96
Rental income	465	6,000	(5,535)
Transmitters/cards and other income	2,117	-	2,117
<b>Total revenues</b>	<b>551,326</b>	<b>552,432</b>	<b>(1,106)</b>
<b>Administrative Expenses</b>			
Professional management	31,800	31,800	-
Professional fees - auditing	1,350	1,200	(150)
Professional fees - legal, net of recovery	6,912	7,800	888
Payroll processing	2,082	1,800	(282)
Office supplies and postage	13,236	13,680	444
Property and other taxes	1,552	840	(712)
<b>Total administrative expenses</b>	<b>56,932</b>	<b>57,120</b>	<b>188</b>
<b>Contract services</b>			
Water conditioner	4,560	4,320	(240)
Trash removal	24,016	23,400	(616)
Extermination and termite contract	736	2,400	1,664
Patrol services	22,331	37,200	14,869
<b>Total contract services</b>	<b>51,643</b>	<b>67,320</b>	<b>15,677</b>
<b>Building maintenance</b>			
Payroll, taxes and contract labor	78,724	77,760	(964)
Supplies and other expenses	44,731	41,412	(3,319)
<b>Total building maintenance</b>	<b>123,455</b>	<b>119,172</b>	<b>(4,283)</b>
<b>Utilities</b>			
Electricity	22,891	19,680	(3,211)
Water and sewer	85,694	108,000	22,306
Gas	69,567	79,440	9,873
Telephone	5,238	5,700	462
<b>Total utilities</b>	<b>183,390</b>	<b>212,820</b>	<b>29,430</b>
<b>Insurance</b>	<b>63,570</b>	<b>58,200</b>	<b>(5,370)</b>
<b>Repairs</b>	<b>23,188</b>	<b>21,000</b>	<b>(2,188)</b>
<b>Capital reserve expenses</b>	<b>18,359</b>	<b>16,800</b>	<b>(1,559)</b>
<b>Total expenses</b>	<b>520,537</b>	<b>\$552,432</b>	<b>31,895</b>
<b>Net revenue over expenses</b>	<b>\$ 30,789</b>	<b>-</b>	<b>\$30,789</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES**

Years Ended December 31, 2006 to 1998

	2006	2005	2004	2003	2002	2001	2000	1999	1998
<b>Assessments and revenues</b>									
Maintenance fees	\$546,531	\$510,454	\$485,169	\$487,148	\$488,178	\$445,883	\$420,862	\$416,931	\$406,589
Late fees & penalties	1,877	2,775	5,918	6,996	6,021	4,970	3,802	5,521	4,683
Interest income	336	225	62	233	657	178	675	462	1,764
Loss from fire	-	(617)	-	-	(1,050)	-	-	-	-
Rental income, net of expenses	465	-	5,400	-	-	-	-	-	-
Transmitters/cards and other income	2,117	4,965	3,036	47	237	150	(6,089)	-	201
<b>Total revenues</b>	<b>551,326</b>	<b>517,802</b>	<b>499,585</b>	<b>494,424</b>	<b>494,043</b>	<b>451,181</b>	<b>419,250</b>	<b>422,914</b>	<b>413,237</b>
<b>Administrative Expenses</b>									
Professional management	31,800	30,600	30,600	29,808	29,808	29,808	29,808	29,808	27,216
Professional fees - auditing	1,350	1,200	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Professional fees - legal, net of recovery	6,912	4,019	4,570	4,087	267	36,366	2,618	660	(482)
Payroll processing	2,082	1,674	1,467	1,562	1,325	1,403	1,182	1,212	530
Office supplies and postage	13,236	14,418	14,736	11,735	16,959	9,090	7,341	6,590	8,549
Property and other taxes	1,552	2,125	916	3,621	2,400	-	-	-	(2,655)
<b>Total administrative expenses</b>	<b>56,932</b>	<b>54,036</b>	<b>53,389</b>	<b>51,913</b>	<b>51,859</b>	<b>77,767</b>	<b>42,049</b>	<b>39,370</b>	<b>34,258</b>
<b>Contract services</b>									
Water conditioner	4,560	4,230	4,200	4,200	4,200	4,090	4,080	4,080	3,970
Trash removal	24,016	23,238	21,273	18,857	18,380	17,310	14,043	15,164	13,902
Extermination and termite contract	736	1,451	1,451	3,452	1,795	246	2,650	1,079	3,091
Patrol services	22,331	34,465	40,076	7,286	6,600	8,752	11,900	11,700	11,950
<b>Total contract services</b>	<b>51,643</b>	<b>63,384</b>	<b>67,000</b>	<b>33,795</b>	<b>30,975</b>	<b>30,398</b>	<b>32,673</b>	<b>32,023</b>	<b>32,913</b>
<b>Building maintenance</b>									
Payroll, taxes and contract labor	78,724	80,954	69,937	74,576	60,514	71,504	76,790	72,623	58,519
Supplies and other expenses	44,731	41,667	33,575	45,863	32,078	29,624	33,887	42,659	30,620
<b>Total building maintenance</b>	<b>123,455</b>	<b>122,621</b>	<b>103,512</b>	<b>120,439</b>	<b>92,592</b>	<b>101,128</b>	<b>110,677</b>	<b>115,282</b>	<b>89,139</b>
<b>Utilities</b>									
Electricity	22,891	17,176	16,522	10,635	10,690	13,912	10,755	9,986	11,516
Water and sewer	85,694	119,651	92,351	96,190	103,750	91,584	128,868	124,420	122,305
Gas	69,567	64,751	68,024	49,917	41,415	58,911	42,677	34,651	39,671
Telephone	5,238	5,193	5,010	5,918	4,780	3,466	2,962	2,823	2,717
<b>Total utilities</b>	<b>183,390</b>	<b>206,771</b>	<b>181,907</b>	<b>162,660</b>	<b>160,635</b>	<b>167,873</b>	<b>185,262</b>	<b>171,880</b>	<b>176,209</b>
<b>Insurance</b>	<b>63,570</b>	<b>48,132</b>	<b>50,249</b>	<b>80,950</b>	<b>56,901</b>	<b>43,161</b>	<b>24,810</b>	<b>23,893</b>	<b>36,860</b>
<b>Repairs</b>	<b>23,188</b>	<b>15,704</b>	<b>16,490</b>	<b>21,386</b>	<b>32,277</b>	<b>16,649</b>	<b>19,716</b>	<b>30,556</b>	<b>4,976</b>
<b>Capital reserve expenses</b>	<b>18,359</b>	<b>21,436</b>	<b>16,317</b>	<b>79,449</b>	<b>-</b>	<b>-</b>	<b>21,238</b>	<b>40,476</b>	<b>62,436</b>
<b>Total expenses</b>	<b>520,537</b>	<b>532,084</b>	<b>488,864</b>	<b>550,592</b>	<b>425,239</b>	<b>436,976</b>	<b>436,425</b>	<b>453,480</b>	<b>436,791</b>
<b>Net revenue over expenses</b>	<b>\$50,789</b>	<b>(\$14,282)</b>	<b>\$10,721</b>	<b>(\$56,168)</b>	<b>\$68,804</b>	<b>\$14,205</b>	<b>(\$17,175)</b>	<b>(\$30,566)</b>	<b>(\$23,554)</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**SCHEDULE OF CAPITAL RESERVE EXPENSES**  
**As of December 31, 2006 and 2005**

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	<u>2006</u>	<u>2005</u>
Driveways and sidewalks	-	\$8,378
Pool furniture	-	3,357
Carports	-	1,510
Mulch for property	-	498
Gypsum floor installation	\$3,915	4,385
Boiler repairs	-	3,308
Roof	2,265	-
Pool renovation	12,179	-
Revenues over expenses	\$18,359	\$21,436

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