

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

**REPORT ON AUDIT OF  
FINANCIAL STATEMENTS**

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

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

**FORUM PARK TOWNHOMES OWNERS ASSOCIATION, INC.**  
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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 Townhomes Owners Association, Inc. as of December 31, 2008 and 2007, and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances; and 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 Forum Park Townhomes Owners Association, Inc. as of December 31, 2008 and 2007, 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.

Forum Park Townhomes 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 12 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 30, 2009

FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.

BALANCE SHEETS

As of December 31, 2008 and 2007

	Operating Fund	Replacement Fund	Totals 2008	Memo Totals 2007
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	-	-	-	\$32,490
Accounts receivable	\$80,584	-	\$80,584	\$54,976
Allowance for adjustments and writeoffs	(6,900)	-	(6,900)	(6,900)
Prepaid expenses	18,278	-	18,278	27,435
<b>Total assets</b>	<b>\$91,962</b>	<b>-</b>	<b>\$91,962</b>	<b>\$108,001</b>

**LIABILITIES AND FUND BALANCE**

<b>Current liabilities</b>				
Accounts payable	\$41,416	-	\$41,416	\$21,647
Prepaid assessments	8,455	-	8,455	6,406
<b>Total current liabilities</b>	<b>49,871</b>	<b>-</b>	<b>49,871</b>	<b>28,053</b>
<b>Fund balance</b>	<b>42,091</b>	<b>-</b>	<b>42,091</b>	<b>79,948</b>
<b>Total liabilities and fund balance</b>	<b>\$91,962</b>	<b>-</b>	<b>\$91,962</b>	<b>\$108,001</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 CHANGES IN FUND BALANCES**  
**For The Years Ended December 31, 2008 and 2007**

	Operating Fund	Replacement Fund	Totals 2008	Memo Totals 2007
<b>Assessments and revenues</b>				
Maintenance fees	\$552,004	-	\$552,004	\$545,168
Late fees & penalties	7,532	-	7,532	5,969
Interest income	-	\$227	227	600
Insurance proceeds - fire	-	-	0	63,609
Rental income (loss), net of expenses	(1,860)	-	(1,860)	-
Transmitters/cards and other income	9,658	-	9,658	4,341
Sale of association units	38,500	-	38,500	-
Capital reserve funding	13,764	(13,764)	-	-
<b>Total revenues</b>	<b>619,598</b>	<b>(13,537)</b>	<b>606,061</b>	<b>619,687</b>
<b>Operating expenses</b>				
Administrative expenses	56,212	-	56,212	51,128
Contract services	61,428	-	61,428	63,028
Building maintenance	136,449	-	136,449	127,298
Utilities	225,566	-	225,566	189,030
Insurance	114,586	-	114,586	76,524
Repairs	32,526	-	32,526	32,594
Renovation and improvements	-	17,151	17,151	7,868
Fire damage repairs	-	-	-	71,397
<b>Total expenses</b>	<b>626,767</b>	<b>17,151</b>	<b>643,918</b>	<b>618,867</b>
<b>Assessments and revenues over (under) expenses</b>	<b>(7,169)</b>	<b>(30,688)</b>	<b>(37,857)</b>	<b>820</b>
Fund balance, beginning of the year	49,260	\$30,688	79,948	79,128
<b>Fund balance, end of the year</b>	<b>\$42,091</b>	<b>-</b>	<b>\$42,091</b>	<b>\$79,948</b>
	-	-	-	-

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For The Years Ended December 31, 2008 and 2007**

	Operating Fund	Replacement Fund	Totals 2008	Memo Totals 2007
<b>From (to) operations</b>				
Assessments and revenues over (under) expenses	(\$7,169)	(\$30,688)	(\$37,857)	\$820
Accounts receivable	(25,608)	-	(25,608)	(17,369)
Prepaid insurance	9,157	-	9,157	(13,647)
Accounts payable	19,769	-	19,769	7,600
Pre-paid assessments	2,049	-	2,049	1,063
<b>Total from operations</b>	<b>(1,802)</b>	<b>(30,688)</b>	<b>(32,490)</b>	<b>(21,533)</b>
<b>Increase (decrease) in cash</b>	<b>(1,802)</b>	<b>(30,688)</b>	<b>(32,490)</b>	<b>(21,533)</b>
Cash, beginning of the year	\$1,802	\$30,688	\$32,490	\$54,023
<b>Cash, end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$32,490</b>

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

**FORUM PARK TOWNHOMES OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2008 and 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION**

Forum Park Townhomes 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 Townhomes 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. The Directors need not be members of the Association, and are elected for a term of three years, with two, two and one director elected each year.

**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.

**FORUM PARK TOWNHOMES OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2008 and 2007**

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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**

Homeowner Associations may be taxed either as Homeowner 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 Homeowner 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 Homeowner Association for the year ended December 31, 2008.

**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.



**FORUM PARK TOWNHOMES OWNERS ASSOCIATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2008 and 2007**

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**2. REPLACEMENT FUNDING PROGRAM**

The Association is responsible for the repair 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'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**  
Per Homeowner and as Percentage of Assessments  
For The Year Ended December 31, 2008

	<b>Actual</b>	<b>Average Per Home Per Year</b>	<b>Average Per Home Per Month</b>
<b>Assessments and revenues</b>			
Maintenance fees	\$552,004	91.08%	\$212.96
Late fees & penalties	7,532	1.24%	2.91
Interest income	227	0.04%	0.09
Rental income	(1,860)	-0.31%	(0.72)
Transmitters/cards and other income	9,658	1.59%	3.73
Sale of association units	38,500	6.35%	14.85
<b>Total revenues</b>	<b>606,061</b>	<b>100.00%</b>	<b>233.82</b>
<b>Administrative Expenses</b>			
Professional management	31,800	5.25%	12.27
Professional fees - auditing	1,250	0.21%	0.48
Professional fees - legal, net of recovery	6,160	1.02%	2.38
Payroll processing	2,254	0.37%	0.87
Office supplies and postage	14,321	2.36%	5.53
Property and other taxes	427	0.07%	0.16
<b>Total administrative expenses</b>	<b>56,212</b>	<b>9.27%</b>	<b>21.69</b>
<b>Contract services</b>			
Water conditioner	4,600	0.76%	1.77
Trash removal	25,927	4.28%	10.00
Patrol services	30,901	5.10%	11.92
<b>Total contract services</b>	<b>61,428</b>	<b>10.14%</b>	<b>23.70</b>
<b>Building maintenance</b>			
Payroll, taxes and contract labor	84,638	13.97%	32.65
Supplies and other expenses	51,811	8.55%	19.99
<b>Total building maintenance</b>	<b>136,449</b>	<b>22.51%</b>	<b>52.64</b>
<b>Utilities</b>			
Electricity	17,027	2.81%	6.57
Water and sewer	116,001	19.14%	44.75
Gas	87,351	14.41%	33.70
Telephone	5,187	0.86%	2.00
<b>Total utilities</b>	<b>225,566</b>	<b>37.22%</b>	<b>87.02</b>
<b>Insurance</b>	<b>114,586</b>	<b>18.91%</b>	<b>44.21</b>
<b>Repairs</b>	<b>32,526</b>	<b>5.37%</b>	<b>12.55</b>
<b>Capital reserve expenses</b>	<b>17,151</b>	<b>2.83%</b>	<b>6.62</b>
<b>Total expenses</b>	<b>643,918</b>	<b>106.25%</b>	<b>248.43</b>
Net revenue over expenses	(\$37,857)	-6.25%	(\$14.61)

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**COMPARISON OF ACTUAL TO BUDGETED**  
**ASSESSMENTS, REVENUES AND EXPENSES**  
**For The Year Ended December 31, 2008**

	<b>Actual</b>	<b>Budget</b>	<b>Variance F (UF)</b>
<b>Assessments and revenues</b>			
Maintenance fees	\$552,004	\$543,792	\$8,212
Late fees & penalties	7,532	2,400	5,132
Interest income	227	240	(13)
Rental income	(1,860)	5,400	(7,260)
Transmitters/cards and other income	9,658	-	9,658
Sale of association units	38,500	26,472	12,028
<b>Total revenues</b>	<b>606,061</b>	<b>578,304</b>	<b>27,757</b>
<b>Administrative Expenses</b>			
Professional management	31,800	31,800	-
Professional fees - auditing	1,250	1,344	94
Professional fees - legal, net of recovery	6,160	7,800	1,640
Payroll processing	2,254	1,860	(394)
Office supplies and postage	14,321	13,920	(401)
Property and other taxes	427	1,140	713
<b>Total administrative expenses</b>	<b>56,212</b>	<b>57,864</b>	<b>1,652</b>
<b>Contract services</b>			
Water conditioner	4,600	4,560	(40)
Trash removal	25,927	24,240	(1,687)
Extermination and termite contract	-	2,400	2,400
Patrol services	30,901	32,640	1,739
<b>Total contract services</b>	<b>61,428</b>	<b>63,840</b>	<b>2,412</b>
<b>Building maintenance</b>			
Payroll, taxes and contract labor	84,638	81,000	(3,638)
Supplies and other expenses	51,811	41,760	(10,051)
<b>Total building maintenance</b>	<b>136,449</b>	<b>122,760</b>	<b>(13,689)</b>
<b>Utilities</b>			
Electricity	17,027	21,600	4,573
Water and sewer	116,001	105,600	(10,401)
Gas	87,351	78,000	(9,351)
Telephone	5,187	4,920	(267)
<b>Total utilities</b>	<b>225,566</b>	<b>210,120</b>	<b>(15,446)</b>
<b>Insurance</b>	<b>114,586</b>	<b>102,720</b>	<b>(11,866)</b>
<b>Repairs</b>	<b>32,526</b>	<b>21,000</b>	<b>(11,526)</b>
<b>Capital reserve expenses</b>	<b>17,151</b>	<b>-</b>	<b>(17,151)</b>
<b>Total expenses</b>	<b>643,918</b>	<b>\$578,304</b>	<b>(65,614)</b>
<b>Net revenue over expenses</b>	<b>(\$37,857)</b>	<b>-</b>	<b>(\$37,857)</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**  
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	\$552,004	\$545,168	\$546,531	\$510,454	\$485,169	\$487,148
Late fees & penalties	7,532	5,969	1,877	2,775	5,918	6,996
Interest income	227	600	336	225	62	233
Insurance proceeds - fire	-	63,609	-	-	-	-
Rental income, net of expenses	(1,860)	-	465	-	5,400	-
Transmitters/cards and other income	9,658	4,341	2,117	4,965	3,036	47
Sale of association units	38,500	-	-	-	-	-
<b>Total revenues</b>	<b>606,061</b>	<b>619,687</b>	<b>551,326</b>	<b>518,419</b>	<b>499,585</b>	<b>494,424</b>
<b>Administrative Expenses</b>						
Professional management	31,800	31,800	31,800	30,600	30,600	29,808
Professional fees - auditing	1,250	1,200	1,350	1,200	1,100	1,100
Professional fees - legal, net of recovery	6,160	1,922	6,912	4,019	4,570	4,087
Payroll processing	2,254	2,150	2,082	1,674	1,467	1,562
Office supplies and postage	14,321	13,079	13,236	14,418	14,736	11,735
Property and other taxes	427	977	1,552	2,125	916	3,621
<b>Total administrative expenses</b>	<b>56,212</b>	<b>51,128</b>	<b>56,932</b>	<b>54,036</b>	<b>53,389</b>	<b>51,913</b>
<b>Contract services</b>						
Water conditioner	4,600	4,560	4,560	4,230	4,200	4,200
Trash removal	25,927	24,384	24,016	23,238	21,273	18,857
Extermination and termite contract	-	2,338	736	1,451	1,451	3,452
Patrol services	30,901	31,746	22,331	34,465	40,076	7,286
<b>Total contract services</b>	<b>61,428</b>	<b>63,028</b>	<b>51,643</b>	<b>63,384</b>	<b>67,000</b>	<b>33,795</b>
<b>Building maintenance</b>						
Payroll, taxes and contract labor	84,638	79,732	78,724	80,954	69,937	74,576
Supplies and other expenses	51,811	47,566	44,731	41,667	33,575	45,863
<b>Total building maintenance</b>	<b>136,449</b>	<b>127,298</b>	<b>123,455</b>	<b>122,621</b>	<b>103,512</b>	<b>120,439</b>
<b>Utilities</b>						
Electricity	17,027	18,185	22,891	17,176	16,522	10,635
Water and sewer	116,001	94,716	85,694	119,651	92,351	96,190
Gas	87,351	71,250	69,567	64,751	68,024	49,917
Telephone	5,187	4,879	5,238	5,193	5,010	5,918
<b>Total utilities</b>	<b>225,566</b>	<b>189,030</b>	<b>183,390</b>	<b>206,771</b>	<b>181,907</b>	<b>162,660</b>
<b>Insurance</b>	<b>114,586</b>	<b>76,524</b>	<b>63,570</b>	<b>48,132</b>	<b>50,249</b>	<b>80,950</b>
<b>Repairs</b>	<b>32,526</b>	<b>32,594</b>	<b>23,188</b>	<b>15,704</b>	<b>16,490</b>	<b>21,386</b>
<b>Renovations and improvements</b>	<b>17,151</b>	<b>7,868</b>	<b>18,359</b>	<b>21,436</b>	<b>16,317</b>	<b>79,449</b>
<b>Fire repairs</b>	<b>-</b>	<b>71,397</b>	<b>-</b>	<b>617</b>	<b>-</b>	<b>-</b>
<b>Total expenses</b>	<b>643,918</b>	<b>618,867</b>	<b>520,537</b>	<b>532,084</b>	<b>488,864</b>	<b>550,592</b>
<b>Net revenue over expenses</b>	<b>(\$37,857)</b>	<b>\$820</b>	<b>\$30,789</b>	<b>(\$13,665)</b>	<b>\$10,721</b>	<b>(\$56,168)</b>

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

**FORUM PARK TOWNHOMES OWNERS' ASSOCIATION, INC.**  
**SCHEDULE OF RENOVATIONS AND IMPROVEMENTS**  
**As of December 31, 2008 to 2005**

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	<u>2008</u>	<u>2007</u>	<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	\$3,416	-	\$3,915	4,385
Boiler repairs	4,723	-	-	3,308
Roof	-	-	2,265	-
Pool renovation	-	-	12,179	-
Unit renovation	-	\$6,047		
Building	5,823	1,821		
Plants/flowers	3,189			
<b>Revenues over expenses</b>	<b>\$17,151</b>	<b>\$7,868</b>	<b>\$18,359</b>	<b>\$21,436</b>

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