

RIVERWOOD VILLAGE
HOMEOWNERS ASSOCIATION, INC

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Year Ended
December 31, 2009

NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION, INC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION, INC

We have audited the accompanying Balance Sheets of RIVERWOOD VILLAGE 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 RIVERWOOD VILLAGE 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.

RIVERWOOD VILLAGE 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

July 7, 2010

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
BALANCE SHEETS
As of December 31, 2009 and 2008

	Operating	Replacement	2009	Memo
	Fund	Fund	Total	2008
				Total
<u>ASSETS</u>				
Current Assets				
Cash	\$554	\$7,825	\$8,379	\$27,524
Certificate of deposits	-	20,122	20,122	19,842
Accounts receivable	38,485	-	38,485	41,646
Total assets	\$39,039	\$27,947	\$66,986	\$89,012

LIABILITIES AND FUND BALANCE

Current liabilities				
Prepaid maintenance fees	\$5,792	-	\$5,792	\$4,212
Total current liabilities	5,792	-	5,792	4,212
Fund balance	33,247	\$27,947	61,194	84,800
Total liabilities and fund balance	\$39,039	\$27,947	\$66,986	\$89,012

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

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES
AND
CHANGES IN FUND BALANCES
For The Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	2009 Total	Memo 2008 Total
Assessments and revenues				
Maintenance fees	\$68,580	-	\$68,580	\$68,580
Write-offs and adjustments	(18,109)	-	(18,109)	(5,653)
Late fees & penalties	4,885	-	4,885	6,401
Interest income	273	-	273	1,130
Other income	25	-	25	(550)
Capital reserve transfers	10,727	(\$10,727)	-	-
Total revenues	66,381	(10,727)	55,654	69,908
Operating expenses				
Administrative	14,532	-	14,532	12,227
Contract services	51,293	-	51,293	32,103
Utilities	11,925	-	11,925	12,299
Insurance	1,330	-	1,330	1,330
Facility maintenance	180	-	180	919
Total expenses	79,260	-	79,260	58,878
Assessments and revenues over (under) expenses	(12,879)	(10,727)	(23,606)	11,030
Fund balance, beginning of the year	46,126	38,674	84,800	73,770
Fund balance, end of the year	\$33,247	\$27,947	\$61,194	\$84,800

The accompanying notes are an integral part of these financial statements

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2009 and 2008

	Operating Fund	Replacement Fund	2009 Total	Memo 2008 Total
Operations				
Assessments and revenues				
over (under) expenses	(\$12,879)	(\$10,727)	(\$23,606)	\$11,030
<i>Adjustments to reconcile assessments</i>				
<i>and revenues over (under) expenses to</i>				
<i>cash flow from operations</i>				
Accounts receivable	3,161	-	3,161	(3,969)
Prepaid assessments	1,580	-	1,580	702
Total from operations	(8,138)	(10,727)	(18,865)	7,763
Investment activities				
Investment in certificate of deposits	-	(280)	(280)	(508)
Total investment activities	-	(280)	(280)	(508)
Increase (decrease) in cash	(8,138)	(11,007)	(19,145)	7,255
Cash, beginning of the year	8,692	18,832	27,524	20,269
Cash, end of the year	\$554	\$7,825	\$8,379	\$27,524

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part of these financial statements*

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2009 and 2008

1. ORGANIZATION

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION, INC ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on November 1, 1979.

The Association is the governing body for the homeowners of Riverwood Village Homeowners Association, a 180 unit single-family residential subdivision in Fort Bend County, Texas. The purpose or purposes for which the corporation is organized are to provide for maintenance, preservation and architectural control of the residence Lots and Common Area within that certain tract of property known as Riverwood Village, a subdivision in Fort Bend County, Texas

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.

RIVERWOOD VILLAGE 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 \$38,485 and \$41,646 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.

RIVERWOOD VILLAGE 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

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
Per Homeowner and as Percentage of Revenues
For The Year Ended December 31, 2009

	<u>Actual</u>	<u>%age</u>	<u>Annual Per Home</u>
Assessments and revenues			
Maintenance fees	\$68,580	123.23%	\$381.00
Write offs and adjustments	(18,109)	-32.54%	(100.61)
Late fees, penalties, and collection fees	4,885	8.78%	27.14
Interest income	273	0.49%	1.52
Other income	25	0.04%	0.14
Total revenues	55,654	100.00%	309.19
Administrative Expenses			
Management fees	5,700	10.24%	31.67
Audit fees	870	1.56%	4.83
Legal fees, net of recovery	35	0.06%	0.19
Office supplies and postage, net of recovery	7,621	13.69%	42.34
Taxes	306	0.55%	1.70
Total administrative expenses	14,532	26.11%	80.73
Contract services			
Grounds maintenance	11,041	19.84%	61.34
Trash removal	40,252	72.33%	223.62
Total contract services	51,293	92.16%	284.96
Utilities			
Electricity	11,565	20.78%	64.25
Water	360	0.65%	2.00
Total utilities	11,925	21.43%	66.25
Insurance			
Facility maintenance	1,330	2.39%	7.39
	180	0.32%	1.00
Total expenses	79,260	142.42%	440.33
Revenues over (under) expenses	(\$23,606)	-42.42%	(\$131.14)

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

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
COMPARISON OF ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2009

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>F (UF)</u>
Assessments and revenues			
Maintenance fees	\$68,580	\$68,580	-
Write offs and adjustments	(18,109)	(6,672)	(\$11,437)
Late fees, penalties and collection fees	4,885	1,200	3,685
Interest income	273	-	273
Other income	25	-	25
Total revenues	55,654	63,108	(7,454)
Administrative Expenses			
Management fees	5,700	5,700	-
Audit fees	870	900	30
Legal fees, net of recovery	35	120	85
Office supplies and postage, net of recovery	7,621	8,244	623
Taxes	306	360	54
Community events	-	444	444
Total administrative expenses	14,532	15,768	1,236
Contract services			
Grounds maintenance	11,041	10,260	(781)
Trash removal	40,252	20,004	(20,248)
Deed restriction enforcement	-	840	840
Total contract services	51,293	31,104	(20,189)
		0	
Utilities			
Electricity	11,565	12,996	1,431
Water	360	480	120
Total utilities	11,925	13,476	1,551
Insurance	1,330	1,320	(10)
Facility maintenance	180	1,440	1,260
Total expenses	79,260	\$63,108	(16,152)
Revenues over (under) expenses	(\$23,606)	-	(\$23,606)

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part of these financial statements*

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
For The Years Ended December 31, 2009 to 2005

	<u>2009</u>	<u>Memo</u> <u>2008</u>	<u>Memo</u> <u>2007</u>	<u>Memo</u> <u>2006</u>	<u>Memo</u> <u>2005</u>
Assessments and revenues					
Maintenance fees	\$68,580	\$68,580	\$67,500	\$60,120	\$58,140
Write-offs and adjustments	(18,109)	(5,653)	(7,244)	(1,046)	(813)
Late fees, penalties and collection fees	4,885	6,401	6,294	3,132	1,687
Interest income	273	1,130	1,574	1,373	599
Other income	25	(550)	75	(25)	585
Total revenues	55,654	69,908	68,199	63,554	60,198
Administrative Expenses					
Management fees	5,700	5,700	5,700	5,700	5,700
Audit fees	870	875	875	975	880
Legal fees, net of recovery	35	(168)	428	(76)	187
Office supplies and postage, net of recovery	7,621	5,340	7,485	8,371	4,366
Taxes	306	480	381	137	569
Community events	-	-	492	225	382
Total administrative expenses	14,532	12,227	15,361	15,332	12,084
Contract services					
Grounds maintenance	11,041	10,554	9,826	14,000	10,600
Trash removal	40,252	21,699	19,524	19,524	19,842
Property mowing, net of recovery	-	(150)	(240)	500	829
Deed restriction enforcement	-	-	1,045	-	-
Total contract services	51,293	32,103	30,155	34,024	31,271
Utilities					
Electricity	11,565	11,657	11,776	12,061	11,069
Water	360	642	469	452	365
Total utilities	11,925	12,299	12,245	12,513	11,434
Insurance	1,330	1,330	1,330	1,330	1,152
Facility maintenance	180	919	242	655	802
Total expenses	79,260	58,878	59,333	63,854	56,743
Net revenues over expenses	(\$23,606)	\$11,030	\$8,866	(\$299)	\$3,456

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part of these financial statements*