

**RIVERWOOD VILLAGE
HOMEOWNERS ASSOCIATION, INC.**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Year Ended December 31, 2008

*NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS*

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION, INC.
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NAGESH & CARTER, PLLC

Certified Public Accountants

2000 Dairy Ashford, Suite 360, Houston, Texas 77077

Telephone (281) 584-9922, Fax (281) 584-9933



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the
RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION

We have audited the accompanying Balance Sheets of Riverwood Village Homeowners Association as of December 31, 2008, and the related Statements of Assessments, Revenues, Expenses, and Changes in Fund Balances, and 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. Those 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 as of December 31, 2008, 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.

Riverwood Village Homeowners Association 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 7, 8, 9 and 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

May 15, 2009

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
BALANCE SHEETS
As of December 31, 2008 and 2007

	Operating Fund	Replacement Fund	2008 Total	Memo 2007 Total
ASSETS				
Current Assets				
Cash	\$11,723	\$15,801	\$27,524	\$20,269
Certificate of deposits	-	19,842	19,842	19,334
Accounts receivable	41,646	-	41,646	37,677
Total assets	\$53,369	\$35,643	\$89,012	\$77,280
LIABILITIES AND FUND BALANCE				
Current liabilities				
Prepaid maintenance fees	\$4,212	-	\$4,212	\$3,510
Total current liabilities	4,212	-	4,212	3,510
Fund balance	49,157	\$35,643	84,800	73,770
Total liabilities and fund balance	\$53,369	\$35,643	\$89,012	\$77,280

*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 Year Ended December 31, 2008 and 2007

	Operating Fund	Replacement Fund	2008 Total	Memo 2007 Total
Assessments and revenues				
Maintenance fees	\$68,580	-	\$68,580	\$67,500
Write-offs and adjustments	(5,653)	-	(5,653)	(7,244)
Late fees & penalties	6,401	-	6,401	6,294
Interest income	1,130	-	1,130	1,574
Other income	(550)	-	(550)	75
Capital reserve transfers	(1,131)	\$1,131	-	-
Total revenues	68,777	1,131	69,908	68,199
Operating expenses				
Administrative	12,227	-	12,227	15,361
Contract services	32,103	-	32,103	30,155
Utilities	12,299	-	12,299	12,245
Insurance	1,330	-	1,330	1,330
Facility maintenance	919	-	919	242
Total expenses	58,878	-	58,878	59,333
Assessments and revenues over (under) expenses	9,899	1,131	11,030	8,866
Fund balance, beginning of the year	39,258	34,512	73,770	64,904
Fund balance, end of the year	\$49,157	\$35,643	\$84,800	\$73,770

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

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2008 and 2007

	Operating Fund	Replacement Fund	2008 Total	Memo 2007 Total
Operations				
Assessments and revenues over (under) expenses	\$9,899	\$1,131	\$11,030	\$8,866
Accounts receivable	(3,969)	-	(3,969)	(7,073)
Accounts payable	-	-	-	(850)
Prepaid assessments	702	-	702	(6,089)
Total from operations	6,632	1,131	7,763	(5,146)
Investment activities				
Investment in certificate of deposits	-	(508)	(508)	(686)
Total investment activities	-	(508)	(508)	(686)
 Increase (decrease) in cash	 6,632	 623	 7,255	 (5,832)
Cash, beginning of the year	5,091	15,178	20,269	26,101
Cash, end of the year	\$11,723	\$15,801	\$27,524	\$20,269

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part of these financial statements*

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Riverwood Village Homeowners Association, ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on November 1, 1979, and began operations with the close of its first escrow.

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 by a Board of nine (9) Directors, who need not be members of the Association. The Board of Directors are elected for a term of three (3) years.

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.

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

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.

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.

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

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

RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
Per Homeowner and as Percentage of Revenues
For The Year Ended December 31, 2008

	Actual	%age	Annual Per Home
Assessments and revenues			
Maintenance fees	\$68,580	98.10%	\$381.00
Write offs and adjustments	(5,653)	-8.09%	(31.41)
Late fees, penalties, and collection fees	6,401	9.16%	35.56
Interest income	1,130	1.62%	6.28
Other income	(550)	-0.79%	(3.06)
Total revenues	69,908	100.00%	388.38
Administrative Expenses			
Management fees	5,700	8.15%	31.67
Audit fees	875	1.25%	4.86
Legal fees, net of recovery	(168)	-0.24%	(0.93)
Office supplies and postage, net of recovery	5,340	7.64%	29.67
Taxes	480	0.69%	2.67
Community events	0	0.00%	-
Total administrative expenses	12,227	17.49%	67.93
Contract services			
Grounds maintenance	10,554	15.10%	58.63
Trash removal	21,699	31.04%	120.55
Property mowing, net of recovery	(150)	-0.21%	(0.83)
Deed restriction enforcement	0	0.00%	-
Total contract services	32,103	45.92%	178.35
Utilities			
Electricity	11,657	16.67%	64.76
Water	642	0.92%	3.57
Total utilities	12,299	17.59%	68.33
Insurance	1,330	1.90%	7.39
Facility maintenance	919	1.31%	5.11
Total expenses	58,878	84.22%	327.10
Revenues over (under) expenses	\$11,030	15.78%	\$61.28

*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, 2008 and 2007

	<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	(5,653)	(6,672)	\$1,019
Late fees, penalties and collection fees	6,401	720	5,681
Interest income	1,130	480	650
Other income	(550)	-	(550)
Total revenues	69,908	63,108	6,800
Administrative Expenses			
Management fees	5,700	5,700	-
Audit fees	875	900	25
Legal fees, net of recovery	(168)	120	288
Office supplies and postage, net of recovery	5,340	8,244	2,904
Taxes	480	360	(120)
Community events	-	444	444
Total administrative expenses	12,227	15,768	3,541
Contract services			
Grounds maintenance	10,554	10,260	(294)
Trash removal	21,699	20,004	(1,695)
Property mowing, net of recovery	(150)	-	150
Deed restriction enforcement	-	840	840
Total contract services	32,103	31,104	(999)
		0	
Utilities			
Electricity	11,657	12,996	1,339
Water	642	480	(162)
Total utilities	12,299	13,476	1,177
Insurance	1,330	1,320	(10)
Facility maintenance	919	1,440	521
Total expenses	58,878	\$63,108	4,230
Revenues over (under) expenses	\$11,030	-	\$11,030

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RIVERWOOD VILLAGE HOMEOWNERS ASSOCIATION
COMPARATIVE ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
For The Years Ended December 31, 2008 to 2003

	<u>2008</u>	<u>Memo</u> <u>2007</u>	<u>Memo</u> <u>2006</u>	<u>Memo</u> <u>2005</u>	<u>Memo</u> <u>2004</u>	<u>Memo</u> <u>2003</u>
Assessments and revenues						
Maintenance fees	\$68,580	\$67,500	\$60,120	\$58,140	\$49,073	\$47,614
Write-offs and adjustments	(5,653)	(7,244)	(1,046)	(813)	(2,223)	-
Late fees, penalties and collection fees	6,401	6,294	3,132	1,687	405	1,296
Interest income	1,130	1,574	1,373	599	353	652
Other income	(550)	75	(25)	585	75	104
Total revenues	69,908	68,199	63,554	60,198	47,683	49,666
Administrative Expenses						
Management fees	5,700	5,700	5,700	5,700	5,700	5,700
Audit fees	875	875	975	880	850	850
Legal fees, net of recovery	(168)	428	(76)	187	16,376	1,611
Office supplies and postage, net of recovery	5,340	7,485	8,371	4,366	10,032	9,088
Taxes	480	381	137	569	-	-
Community events	-	492	225	382	3,945	6,999
Total administrative expenses	12,227	15,361	15,332	12,084	36,903	24,248
Contract services						
Grounds maintenance	10,554	9,826	14,000	10,600	8,925	7,095
Trash removal	21,699	19,524	19,524	19,842	18,073	10,741
Property mowing, net of recovery	(150)	(240)	500	829	162	275
Deed restriction enforcement	-	1,045	-	-	-	-
Total contract services	32,103	30,155	34,024	31,271	27,160	18,111
Utilities						
Electricity	11,657	11,776	12,061	11,069	10,409	10,133
Water	642	469	452	365	380	314
Total utilities	12,299	12,245	12,513	11,434	10,789	10,447
Insurance						
	1,330	1,330	1,330	1,152	1,152	1,152
Facility maintenance						
	919	242	655	802	11,136	712
Total expenses	58,878	59,333	63,854	56,743	87,140	54,670
Net revenues over expenses	\$11,030	\$8,866	(\$299)	\$3,456	(\$39,456)	(\$5,004)

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part of these financial statements*