

WILLOW POINTE
HOMEOWNERS ASSOCIATION, INC.

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

For the Years Ended
December 31, 2008

NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
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NAGESH & CARTER, PLLC

Certified Public Accountants

2000 Dairy Ashford, Suite 360, Houston, TX 77077

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

E-Mail: ksNagesh@sbcglobal.net



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the
WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.

We have audited the accompanying Balance Sheets of WILLOW POINTE HOMEOWNERS ASSOCIATION, INC., as of December 31, 2008 and 2007 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 WILLOW POINTE HOMEOWNERS 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.

WILLOW POINTE 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 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

April 30, 2008

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
BALANCE SHEETS
As of December 31, 2008 and 2007

	Operating Fund	Capital Reserve Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
<u>ASSETS</u>				
Current Assets				
Cash	\$67,724	\$158,372	\$226,096	\$222,491
Certificate of deposits	-	60,000	60,000	40,010
Accounts receivable	30,334	-	30,334	34,080
Prepaid expenses	4,405	-	4,405	3,327
Total current assets	\$102,463	\$218,372	\$320,835	\$299,908
 <u>LIABILITIES AND FUND BALANCE</u>				
Current liabilities				
Prepaid maintenance fees	\$80,875	-	\$80,875	\$81,369
Total current liabilities	80,875	-	80,875	81,369
Fund balance	21,588	\$218,372	239,960	218,539
Total liabilities and fund balance	\$102,463	\$218,372	\$320,835	\$299,908

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

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
STATEMENT OF ASSESSMENTS, REVENUES AND EXPENSES
AND
CHANGES IN FUND BALANCES
For The Years Ended December 31, 2008 and 2007

	Operating Fund	Capital Reserve Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
Assessments and revenues				
Maintenance fees	\$263,424	-	\$263,424	\$263,424
Adjustments and write-offs	(2,032)	-	(2,032)	(3,334)
Late fees & penalties	1,350	-	1,350	7,294
Interest income	-	\$7,167	7,167	9,205
Other income	50	-	50	141
Capital reserve funding (Transfer)	(46,898)	46,898	-	-
Total revenues	215,894	54,065	269,959	276,730
Operating expenses				
Administrative	38,180	-	38,180	33,744
Facilities maintenance	20,602	-	20,602	37,735
Contract services	102,119	-	102,119	84,682
Utilities	69,238	-	69,238	60,969
Insurance	5,442	-	5,442	6,967
Capital reserve expenses	-	10,747	10,747	2,360
Income taxes	-	2,210	2,210	-
Total expenses	235,581	12,957	248,538	226,457
Assessments and revenues over (under) expenses	(19,687)	41,108	21,421	50,273
Fund balance, beginning of the year	41,275	177,264	218,539	168,266
Fund balance, end of the year	\$21,588	\$218,372	\$239,960	\$218,539

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

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
STATEMENTS OF CASH FLOW
For The Years Ended December 31, 2008 and 2007

	Operating Fund	Capital Reserve Fund	Totals 31-Dec-08	Memo Totals 31-Dec-07
Operations				
Assessments and revenues over (under) expenses	(\$19,687)	\$41,108	\$21,421	\$50,273
Accounts receivable	3,746	-	3,746	(1,437)
Prepaid expenses	(1,078)	-	(1,078)	385
Prepaid assessments	(494)	-	(494)	24,078
Total from operations	(17,513)	41,108	23,595	73,299
Investing				
Investment in certificate of deposits	-	(19,990)	(19,990)	(40,010)
Increase (decrease) in cash	(17,513)	21,118	3,605	33,289
Cash, beginning of the year	85,237	137,254	222,491	189,202
Cash, end of the year	\$67,724	\$158,372	\$226,096	\$222,491

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WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008 and 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Willow Pointe Homeowners Association, Inc. (the "Association") was incorporated in the State of Texas as a not-for-profit corporation on July 11, 1995 and began operations with the close of its first escrow.

The Association is the governing body for the homeowners of Willow Pointe Homeowners Association, Inc. a 588 residential community in Houston, Harris County, Texas. The purpose of the Association is to discharge those functions necessary to the general maintenance, preservation, and development of the Common Properties and Common Facilities.

The affairs of the Association are currently managed by three (3) Directors.

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.

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 flows for the Association as a whole but do not present in detail the amounts of the various funds.

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008 and 2007

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.

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.

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.

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2008 and 2007

2. 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 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 may have to increase the monthly assessments, pass special assessments, borrow, or delay replacement until funds are available.

SUPPLEMENTAL SCHEDULES

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2008

	<u>Actual</u>	<u>%age</u>	<u>Annual Per Home</u>
Assessments and revenues			
Maintenance fees	\$263,424	100.00%	\$448.00
Adjustments and write-offs	(2,032)	-0.77%	(3.46)
Late fees & penalties	1,350	0.51%	2.30
Interest income	7,167	2.72%	12.19
Other income	50	0.02%	0.09
Total revenues	269,959	102.48%	459.11
Administrative Expenses			
Legal and collection, net of recovery	6,202	2.35%	10.55
Deed enforcement	2,514	0.95%	4.28
Management fees	18,000	6.83%	30.61
Professional fees - Audit	1,125	0.43%	1.91
Community activities	742	0.28%	1.26
Office, postage and other expenses	9,597	3.64%	16.32
Total administrative expenses	38,180	14.49%	64.93
Recreational facilities maintenance & activities			
Maintenance, repairs, and supplies	14,765	5.61%	25.11
Landscape extras	5,837	2.22%	9.93
Total recreational facilities & activities	20,602	7.82%	35.04
Contract services			
Pool contract	29,368	11.15%	49.95
Landscape contract	40,796	15.49%	69.38
Mosquito abatement and pest control	1,629	0.62%	2.77
Patrol contract	30,326	11.51%	51.57
Total contract services	102,119	38.77%	173.67
Utilities			
Electricity	11,312	4.29%	19.24
Street lights	42,730	16.22%	72.67
Water and sewer	14,619	5.55%	24.86
Telephone	577	0.22%	0.98
Total utilities	69,238	26.28%	117.75
Insurance	5,442	2.07%	9.26
Income taxes	2,210	0.84%	3.76
Capital reserve expenses	10,747	3.98%	18.28
Total expenses	248,538	94.35%	422.69
Revenues over (under) expenses	\$21,421	8.13%	\$36.42

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

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2008

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>F (UF)</u>
Assessments and revenues			
Maintenance fees	\$263,424	\$263,424	-
Adjustments and write-offs	(2,032)	(5,899)	\$3,867
Late fees & penalties	1,350	1,500	(150)
Interest income	7,167	-	7,167
Other income	50	120	(70)
Total revenues	269,959	259,145	10,814
Administrative Expenses			
Legal and collection, net of recovery	6,202	8,184	1,982
Deed enforcement	2,514	5,160	2,646
Management fees	18,000	18,000	-
Professional fees - Audit	1,125	1,500	375
Community activities	742	1,260	518
Office, postage and other expenses	9,597	9,312	(285)
Total administrative expenses	38,180	43,416	5,236
Recreational facilities maintenance & activities			
Maintenance, repairs, and supplies	14,765	15,120	355
Landscape extras	5,837	18,000	12,163
Total recreational facilities & activities	20,602	33,120	12,518
Contract services			
Pool contract	29,368	27,000	(2,368)
Landscape contract	40,796	30,276	(10,520)
Mosquito abatement and pest control	1,629	1,860	231
Patrol contract	30,326	33,000	2,674
Total contract services	102,119	92,136	(9,983)
Utilities			
Electricity	11,312	13,200	1,888
Street lights	42,730	42,000	(730)
Water and sewer	14,619	12,000	(2,619)
Telephone	577	552	(25)
Total utilities	69,238	67,752	(1,486)
Insurance	5,442	6,360	918
Income taxes	2,210	-	(2,210)
Capital reserve expenses	10,747	16,361	5,614
Total expenses	248,538	259,145	10,607
Revenues over expenses	\$21,421	\$0	\$21,421

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

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
COMPARATIVE ANALYSIS ASSESSMENTS, REVENUES AND EXPENSES
For The Years Ended December 31, 2008, 2007 and 2006

	2008	Memo 2007	Memo 2006
Assessments and revenues			
Maintenance fees	\$263,424	\$263,424	\$263,424
Adjustments and write-offs	(2,032)	(3,334)	(6,114)
Late fees & penalties	1,350	7,294	2,450
Interest income	7,167	9,205	3,001
Other income	50	141	295
Developer income	-	-	45,000
Total revenues	269,959	276,730	308,056
Administrative Expenses			
Legal and collection, net of recovery	6,202	4,091	13,248
Deed enforcement	2,514	3,074	4,326
Management fees	18,000	18,000	16,896
Professional fees - Audit	1,125	1,100	2,213
Community activities	742	980	352
Office, postage and other expenses	9,597	6,499	8,756
Total administrative expenses	38,180	33,744	45,791
Facilities maintenance			
Maintenance, repairs, and supplies	14,765	14,333	10,753
Landscape extras	5,837	23,402	16,483
Total recreational facilities & activities	20,602	37,735	27,236
Contract services			
Pool contract	29,368	24,057	22,933
Landscape contract	40,796	30,266	28,214
Mosquito abatement and pest control	1,629	1,400	1,320
Patrol contract	30,326	28,959	29,626
Total contract services	102,119	84,682	82,093
Utilities			
Electricity	11,312	10,922	11,584
Street lights	42,730	37,836	48,033
Water and sewer	14,619	11,667	16,321
Telephone	577	544	1,031
Total utilities	69,238	60,969	76,969
Insurance	5,442	6,967	2,784
Income taxes	2,210	-	-
Capital reserve expenses	10,747	2,360	19,720
Total expenses	248,538	226,457	254,593
Revenues over expenses	\$21,421	\$50,273	\$53,463

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

WILLOW POINTE HOMEOWNERS ASSOCIATION, INC.
SCHEDULE OF CAPITAL RESERVE EXPENSES
For The Years Ended December 31, 2008 to 2006

	<u>2008</u>	<u>Memo 2007</u>	<u>Memo 2006</u>
Pool repairs	\$3,171	\$2,360	\$19,720
Playground - pole light replacement	454		
Hurricane ike repairs	7,122		
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Total capital reserve expenses	\$10,747	\$2,360	\$19,720
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