

ASHFORD HOLLOW
COMMUNITY IMPROVEMENT ASSOCIATION

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

For the Year Ended
December 31, 2010

NAGESH & CARTER, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of the
ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION

We have audited the accompanying Balance Sheets of ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION, as of December 31, 2010 and 2009 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 ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION, as of December 31, 2010 and 2009 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.

ASHFORD HOLLOW COMMUNITY IMPROVEMENT 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 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.

K. S. Nagesh

Nagesh & Carter, PLLC

Houston, Texas September 26, 2011

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
BALANCE SHEETS
As of December 31, 2010 and 2009

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-10	Memo Totals 31-Dec-09
<u>ASSETS</u>					
Current Assets					
Cash	\$78,128	\$20,255	-	\$98,383	\$59,896
Accounts receivable	10,259	-	-	10,259	14,700
Other current assets	2,745	-	-	2,745	3,214
Land	-	-	\$104,400	104,400	104,400
Total assets	\$91,132	\$20,255	\$104,400	\$215,787	\$182,210
<u>LIABILITIES AND FUND BALANCE</u>					
Current liabilities					
Prepaid maintenance fees	\$36,675	-	-	\$36,675	\$25,143
Total current liabilities	36,675	-	-	36,675	25,143
Fund balance	54,457	\$20,255	\$104,400	179,112	157,067
Total liabilities and fund balance	\$91,132	\$20,255	\$104,400	\$215,787	\$182,210

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

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
STATEMENTS OF ASSESSMENTS, REVENUES AND EXPENSES
AND
CHANGES IN FUND BALANCES
For The Years Ended December 31, 2010 and 2009

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-10	Memo Totals 31-Dec-09
Assessments and revenues					
Maintenance fees	\$85,950	-	-	\$85,950	\$78,075
Late fees	514	-	-	514	496
Interest income	-	\$63	-	63	98
Other income	7,934	-	-	7,934	5,830
Interfund transfers	126	(126)	-	-	-
Total revenues	94,524	(63)	-	94,461	84,499
Operating expenses					
Administrative expenses	13,719	-	-	13,719	15,212
Contract services	41,774	-	-	41,774	48,337
Utilities	7,784	-	-	7,784	9,166
Insurance	6,448	-	-	6,448	5,714
Facility maintenance	2,691	-	-	2,691	1,458
Renovations and replacements	-	-	-	-	2,467
Total expenses	72,416	-	-	72,416	82,354
Revenues over (under) expenses	22,108	(63)	-	22,045	2,145
Fund balance, beginning of the year	32,349	20,318	\$104,400	157,067	154,922
Fund balance, end of the year	\$54,457	\$20,255	\$104,400	\$179,112	\$157,067

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ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
STATEMENTS OF CASH FLOWS
For The Years Ended December 31, 2010 and 2009

	Operating Fund	Replacement Fund	Property Fund	Totals 31-Dec-10	Memo Totals 31-Dec-09
Cash flow from (to) operations					
Assessments and revenues over (under) expenses	\$22,108	(\$63)	-	\$22,045	\$2,145
Adjustments to reconcile assessments and revenues over (under) expenses to cash flow from operations					
Accounts receivable	4,441	-	-	4,441	7,390
Other current assets	469	-	-	469	(423)
Prepaid assessments	11,532	-	-	11,532	(10,329)
Total cash flow from (to) operations	38,550	(63)	-	38,487	(1,217)
Increase (decrease) in cash	38,550	(63)	-	38,487	(1,217)
Cash, beginning of the year	39,578	20,318	-	59,896	61,113
Cash, end of the year	\$78,128	\$20,255	-	\$98,383	\$59,896

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ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010 and 2009

1. ORGANIZATION

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION ("the Association") was incorporated in the State of Texas as a not-for-profit corporation on November 7, 1977.

The Association is the governing body for the homeowners of Ashford Hollow Community Improvement Association, a 225 single-family subdivision in Harris County, Texas. The purposes of the Association are to adopt and publish rules and regulations to govern, maintain, and manage the common areas and facilities of the property.

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.

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010 and 2009

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, 2010 and 2009 the Association had assessments receivable of \$10,259 and \$14,700 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.

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010 and 2009

The Association elected to file its tax return as a Homeowners' Association for the year ended December 31, 2010.

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

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
ANALYSIS OF ASSESSMENTS, REVENUES AND EXPENSES
PER HOMEOWNER AND AS PERCENTAGE OF ASSESSMENTS
For The Year Ended December 31, 2010

	<u>Actual</u>	<u>Per Home</u>	<u>%age</u>
Assessments and revenues			
Maintenance fees	\$85,950	\$382.00	90.99%
Late fees	514	2.28	0.54%
Interest income	63	0.28	0.07%
Other income	7,934	35.26	8.40%
Total revenues	94,461	419.83	100.00%
Administrative Expenses			
Management fees	7,260	32.27	7.69%
Audit fees	600	2.67	0.64%
Legal fees (net of recovery)	1,204	5.35	1.27%
Office expenses	2,706	12.03	2.86%
Social events	1,939	8.62	2.05%
Property taxes	10	0.04	0.01%
Total administrative expenses	13,719	60.97	14.52%
Contract services			
Landscape	3,976	17.67	4.21%
Pool contract	36,961	164.27	39.13%
Pest control	837	3.72	0.89%
Total contract services	41,774	185.66	44.22%
Utilities			
Electricity	7,784	34.60	8.24%
Total utilities	7,784	34.60	8.24%
Insurance	6,448	28.66	6.83%
Facility maintenance and repairs	2,691	11.96	2.85%
Total expenses	72,416	321.85	76.66%
Net revenues over expenses	\$22,045	\$97.98	23.34%

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

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
COMPARISON OF ACTUAL TO BUDGET
ASSESSMENTS, REVENUES AND EXPENSES
For The Year Ended December 31, 2010

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u> <u>F(UF)</u>
Assessments and revenues			
Maintenance fees	\$85,950	\$85,950	-
Late fees	514	150	\$364
Interest income	63	50	13
Other income	7,934	450	7,484
Total revenues	94,461	86,600	7,861
Administrative Expenses			
Management fees	7,260	7,260	-
Audit fees	600	-	(600)
Legal fees (net of recovery)	1,204	5,000	3,796
Office expenses	2,706	(3,000)	(5,706)
Social events	1,939	2,200	261
Property taxes	10	100	90
Income taxes	-	100	100
Total administrative expenses	13,719	11,660	(2,059)
Contract services			
Landscape	3,976	5,250	1,274
Pool contract	36,961	37,000	39
Pest control	837	1,000	163
Total contract services	41,774	43,250	1,476
Utilities			
Electricity	7,784	10,000	2,216
Total utilities	7,784	10,000	2,216
Insurance	6,448	6,000	(448)
Facility maintenance and repairs	2,691	10,000	7,309
Renovations and replacements	-	5,000	5,000
Total expenses	72,416	85,910	13,494
Net revenues over expenses	\$22,045	\$690	\$21,355

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

ASHFORD HOLLOW COMMUNITY IMPROVEMENT ASSOCIATION
ANALYSIS OF REVENUES AND EXPENSES
For The Years Ended December 31, 2010 to 2006

	<u>2010</u>	<u>Memo 2009</u>	<u>Memo 2008</u>	<u>Memo 2007</u>	<u>Memo 2006</u>
Assessments and revenues					
Maintenance fees	\$85,950	\$78,075	\$78,075	\$74,655	\$71,100
Adjustments and write-offs	-	-	(30,713)	-	-
Late fees	514	496	569	1,471	883
Interest income	63	98	1,509	2,923	2,276
Other income	7,934	5,830	461	4,117	2,504
Total revenues	94,461	84,499	49,901	83,166	76,763
Administrative Expenses					
Management fees	7,260	7,095	6,600	6,600	7,260
Audit fees	600	550	550	550	550
Legal fees (net of recovery)	1,204	2,205	2,667	34	1,379
Office expenses	2,706	2,248	2,732	3,700	4,267
Social events	1,939	2,825	1,844	2,377	2,065
Property taxes	10	10	10	22	66
Income taxes	-	279	231	287	-
Total administrative expenses	13,719	15,212	14,634	13,570	15,587
Contract services					
Landscape	3,976	3,800	4,146	4,357	3,774
Pool contract	36,961	44,374	36,633	39,235	29,170
Pest control	837	163	804	885	
Total contract services	41,774	48,337	41,583	44,477	32,944
Utilities					
Telephone	-	812	1,315	1,065	964
Electricity	7,784	6,169	6,157	5,819	7,586
Water & sewer	-	2,185	3,419	2,050	1,753
Total utilities	7,784	9,166	10,891	8,934	10,303
Insurance	6,448	5,714	4,750	4,259	4,750
Facility maintenance and repairs	2,691	1,458	1,162	3,390	2,910
Renovations and replacements	-	2,467	12,036	13,022	-
Total expenses	72,416	82,354	85,056	87,652	66,494
Net revenues over expenses	\$22,045	\$2,145	(\$35,155)	(\$4,486)	\$10,269

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part of these financial statements*