

PINE HOLLOW HOMEOWNERS' ASSOCIATION

Financial Statements

For the Year Ended

December 31, 2007

PS&A Peterson, Scott & Associates, P.C.

Certified Public Accountants

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Independent Auditor's Report

To the Board of Trustees
Pine Hollow Homeowners' Association

We have audited the accompanying balance sheet of Pine Hollow Homeowners' Association as of December 31, 2007 and the related statements of revenues, expenses and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of Pine Hollow Homeowners' Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards 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 Pine Hollow Homeowners' Association as of December 31, 2007 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.

The supplementary information on future major repairs and replacements attached is not a required part of the basic financial statements of Pine Hollow Homeowners' Association but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Peterson, Scott & Associates, P.C.

Peterson, Scott & Associates, P.C.

February 9, 2009

PINE HOLLOW HOMEOWNERS' ASSOCIATION
BALANCE SHEET
December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Assets			
Cash, Including Interest Bearing Accounts	\$ 57,133	\$ 535,778	\$ 592,911
Certificates of Deposit	-	56,223	56,223
Accounts Receivable-Assessments	4,584	-	4,584
Accounts Receivable-Homeowner Other	2,135	-	2,135
Prepaid Insurance	<u>1,215</u>	<u>-</u>	<u>1,215</u>
TOTAL ASSETS	<u>\$ 65,066</u>	<u>\$ 592,001</u>	<u>\$ 657,067</u>
Liabilities			
Accounts Payable	\$ 1,243	\$ -	\$ 1,243
Income Tax Payable	541	-	541
Flood Account-Deferred Revenue	-	490,013	490,013
Deferred Revenue-Grant	-	1,000	1,000
Prepaid Assessments	<u>63,282</u>	<u>-</u>	<u>63,282</u>
TOTAL LIABILITIES	65,066	491,013	556,079
Fund Balance	<u>0</u>	<u>100,988</u>	<u>100,988</u>
TOTAL LIABILITIES & FUND BALANCE	<u>\$ 65,066</u>	<u>\$ 592,001</u>	<u>\$ 657,067</u>

See accompanying notes to financial statements and accountant's report.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND BALANCE
For the Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Revenues:			
Maintenance Assessments	\$ 135,780	\$ 7,670	\$ 143,450
Flood Account-Released from Restrictions	-	15,057	15,057
Interest - Flood Account	-	22,894	22,894
Interest	-	3,311	3,311
Legal Fees Recovered	4,697	-	4,697
Late Charges & Other	937	-	937
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TOTAL REVENUES	141,414	48,932	190,346
 Operating Expenses:			
Utilities	7,875	-	7,875
Maintenance & Repairs	13,128	22,160	35,289
Flood Account Expenditures	-	15,057	15,057
Grounds Maintenance	62,268	-	62,268
Security	13,900	-	13,900
Office & Administrative Expenses	3,728	-	3,728
Legal Fees	20,604	-	20,604
CPA Expenses	1,700	-	1,700
Management	12,150	-	12,150
Miscellaneous - Committees & Other	1,004	-	1,004
Taxes & Permits	374	-	374
Insurance	5,788	-	5,788
Income Tax	541	-	541
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TOTAL EXPENSES	143,060	37,217	180,278
Excess(Deficit) Revenues over Expenses	(1,646)	11,715	10,068
Beginning Fund Balance	(11,066)	124,880	113,814
Permanent Fund Transfer	12,712	(12,712)	0
Interest Income to Flood Account	-	(22,894)	(22,894)
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ENDING FUND BALANCE	\$ <u>0</u>	\$ <u>100,988</u>	\$ <u>100,988</u>

See accompanying notes to financial statements and accountant's report.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Excess(Deficit) of Revenues Over Expenses	\$ (1,646)	\$ 11,715	\$ 10,068
Adjustments to Excess(Deficit) of Revenues Over Expenses:			
(Increase)/Decrease in:			
Certificates of Deposit	-	(2,580)	(2,580)
Assessments Receivable - Homeowners	(2,057)	-	(2,057)
Other Receivables	(535)	-	(535)
Prepaid Insurance	927	-	927
Increase/(Decrease) in:			
Accounts Payable	(1,486)	-	(1,486)
Taxes Payable	(767)	-	(767)
Deferred Revenue	-	(14,057)	(14,057)
Prepaid Assessments	9,705	-	9,705
Net Cash Provided(Used) by Operating Activities	4,140	(4,922)	(782)
CASH FLOWS FROM FINANCING ACTIVITIES			
Permanent Fund Transfer	12,712	(12,712)	0
Net Cash Provided(Used) by Financing Activities	12,712	(12,712)	0
Net Increase(Decrease) in Cash & Cash Equivalents	16,853	(17,635)	(782)
Beginning Cash	40,280	553,413	593,693
Ending Cash	<u>\$ 57,133</u>	<u>\$ 535,778</u>	<u>\$ 592,911</u>
SUPPLEMENTAL DISCLOSURE			
Income Tax Paid	\$ 1,308	\$ -	\$ 1,308

See accompanying notes to financial statements and accountant's report.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
Notes to Financial Statements
December 31, 2007

NOTE 1 - ORGANIZATION

The Pine Hollow Homeowners' Association (the Association) was incorporated as a Texas Non-Profit Corporation on October 18, 1995. The Association was organized to provide maintenance, repair, preservation, upkeep and protection of the residential lots and common area within the Pine Hollow Subdivision. The members of the Association are the owners of the 524 residential units on approximately 153 acres in the Pine Hollow Subdivision in Pearland, Texas.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose:

Operating Fund - This fund is used to account for financial resources available for the general operations of the Association.

Replacement Fund - This fund is used to accumulate financial resources designated for future repairs and replacements.

The Association has established a plan to fund the replacement fund based upon the collection of attorney fees for collection of delinquent owner accounts and deed restriction violations.

Member Assessments

Association members are subject to assessments to provide funds for the Association's operating expenses and major repairs and replacements. The Association's policy is to actively pursue collection of assessments. Assessments receivable at the balance sheet date represent fees due from unit owners. It is the opinion of the board of directors that the Association will ultimately prevail against Homeowners' with delinquent assessments and, accordingly, no allowance for uncollectible accounts is deemed necessary.

The Association retains excess operating funds at the end of the year, if any, for use in future operating periods.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
Notes to Financial Statements
December 31, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash & Cash Equivalents

The Association considers all highly liquid investments with a maturity of three months or less when purchased to be "cash equivalents."

Property & Equipment

Personal property assets acquired by the Association are recorded at cost when purchased. They are depreciated over their estimated useful lives of three to five years using the straight-line method.

Real property, common areas and related improvements to such property are not recorded in the Association's financial statements because those properties are owned by the individual owners in common and not by the Association.

Prepaid Assessments

Prepaid assessments at the balance sheet date represent payments received from association members during the current year, which relate to maintenance assessments for the subsequent year.

Income Taxes

The Association qualifies as a tax-exempt homeowners' association under the Internal Revenue Code Section 528 for the year ended December 31, 2007. Under that Section, the Association is not taxed on income and expenses related to its exempt purpose, which is the acquisition, construction, management, maintenance, and care of the Association property. Net nonexempt function income, which included earned interest and revenues received from nonmembers, is taxed at 30% by the federal government. The current provision for Federal income tax is \$541.

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 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 amounts.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
Notes to Financial Statements
December 31, 2007

NOTE 3 – LEGAL CONTINGENCIES

The Association is a party to various legal actions normally associated with homeowner associations, such as the collection of delinquent assessments, covenant compliance and other matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

NOTE 4 - FUTURE MAJOR REPAIRS AND REPLACEMENT FUND PROGRAM

The Association's governing documents do not require the accumulation of funds to finance estimated future major repairs and replacements. The Association's Board of Directors and its management company conducted a study in 2006 to estimate the remaining useful lives and the replacement costs of the common property components. The Association is funding for such major repairs and replacements over the estimated useful lives of the components based on the study's estimates of current replacement costs, considering amounts previously accumulated in the replacement fund. Actual expenditures, however, may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments, or it may delay major repairs and replacements until funds are available.

NOTE 5 – CONCENTRATION OF CREDIT RISK

The Association occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

NOTE 6 – LITIGATION PROCEEDS

In 2005 the Association received \$561,067 in settlement of a dispute with the subdivision's developer and engineering firms regarding drainage and retention pond issues and \$12,972 in reimbursement of legal expenses associated with that dispute. The funds and the interest on those funds are kept in a separate deposit account and are restricted to the terms of the settlement agreement.

PINE HOLLOW HOMEOWNERS' ASSOCIATION
Notes to Financial Statements
December 31, 2007

NOTE 6 -- LITIGATION PROCEEDS (Continued)

The following table summarizes the activity in that restricted account in 2007.

Beginning Balance	\$ 482,176
Interest Income	22,894
Disbursements	<u>(15,057)</u>
Ending Balance	<u>\$ 490,013</u>

PINE HOLLOW HOMEOWNERS' ASSOCIATION

Supplementary Information

December 31, 2007

PINE HOLLOW HOMEOWNERS' ASSOCIATION
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS & REPLACEMENTS
 (Unaudited)
 December 31, 2007

The Association's Board of Directors and its management company conducted a study to estimate the remaining useful lives and the replacement costs of common property. Replacement costs were based on the estimated costs to repair or replace the common property components based on historical cost of the components plus an annual inflation factor of three percent. The information in the study is periodically updated.

The following table is based on that study and presents significant information about the components of the common property.

<u>Component</u>	Estimated Remaining Useful Life (Years)	Estimated Current Replacement Cost	Replacement Fund Balance at <u>12/31/2007</u>
<u>Pine Hollow Drive Entrance</u>			
Irrigation System, Control Replacements	4	\$ 9,904	
Entrance Sign	10	22,174	
Fountain-Water Feature	12	5,703	
<u>Pine Valley Drive Entrance</u>			
Irrigation System, Control Replacements	7	7,133	
Entrance Sign	13	25,680	
Fountain-Water Feature	7	5,535	
Brick Fence	17	19,834	
<u>Pine Crest Drive Entrance</u>			
Irrigation System, Control Replacements	5	3,942	
Entrance Sign	11	18,825	
<u>Island Locations</u>			
Bench-Pine Tree Court	7	1,476	
Bench-Pine Hurst & Pine Forest	15	1,870	
Bench-Pine Forest & Pine Forest Place	15	1,870	
Bench-Pine Knot Court	15	1,870	
<u>Other</u>			
Culvert & Sidewalk	25	<u>11,616</u>	
TOTAL		<u>\$ 137,432</u>	<u>\$ 100,988</u>