

FOREST WEST OWNERS ASSOCIATION, INC.

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SEPTEMBER 30, 2009

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DeVOLT AND COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Forest West Owners Association, Inc.  
Dallas, Texas

We have audited the accompanying Balance Sheet of the Forest West Owners Association, Inc. at September 30, 2009 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 the 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 the Forest West Owners Association, Inc. at September 30, 2009 and the results of its operations and its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7, the Association has not estimated the remaining lives and replacement costs of the common property and, therefore, has not presented the estimates of future costs of major repairs and replacements that will be required in the future that the American Institute of Certified Public Accountants has determined is required to supplement, although not required to be a part of, the basic financial statements.

Very truly yours,

*DeVolt and Company, P.C.*

DeVolt and Company, P.C.  
Certified Public Accountants  
June 29, 2010

FOREST WEST OWNERS ASSOCIATION, INC.  
BALANCE SHEET  
SEPTEMBER 30, 2009

ASSETS			
	OPERATING FUND	REPLACEMENT FUND	TOTAL
CURRENT ASSETS			
Cash, including interest-bearing deposits	\$ 3,198	\$	\$ 3,198
Assessments receivable, less allowance for doubtful accounts of \$ 9,291	8,027		8,027
Prepaid insurance	5,212		5,212
Prepaid expense - other	690		690
TOTAL CURRENT ASSETS	<u>17,127</u>	<u>-</u>	<u>17,127</u>
TOTAL ASSETS	<u>\$ 17,127</u>	<u>\$ -</u>	<u>\$ 17,127</u>

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES			
Accounts payable	\$ 17,445	\$	\$ 17,445
Assessments received in advance	5,608		5,608
Note payable - insurance	1,612		1,612
TOTAL CURRENT LIABILITIES	<u>24,665</u>	<u>-</u>	<u>24,665</u>
TOTAL LIABILITIES	<u>24,665</u>	<u>-</u>	<u>24,665</u>
FUND BALANCES / (DEFICITS)	<u>(7,538)</u>	<u>-</u>	<u>(7,538)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 17,127</u>	<u>\$ -</u>	<u>\$ 17,127</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

FOREST WEST OWNERS ASSOCIATION, INC.  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	OPERATING FUND	REPLACEMENT FUND	TOTAL
REVENUES			
Regular assessments	\$ 135,724	\$	\$ 135,724
Miscellaneous income	1,280		1,280
Late/collection charges	402		402
Interest income	37		37
TOTAL REVENUES	<u>137,443</u>	-	<u>137,443</u>
OPERATING EXPENSES			
Utilities expense	33,824		33,824
Insurance expense	21,901		21,901
Legal & professional fees	15,445		15,445
Management fees	11,024		11,024
Repairs - buildings	10,142		10,142
Repairs - other	9,557		9,557
Landscaping & lawn maintenance	8,825		8,825
Pool maintenance & repairs	6,893		6,893
Trash removal	6,243		6,243
Porter service	5,175		5,175
Repairs - electrical	5,060		5,060
Courtesy patrol	4,999		4,999
Repairs - fence / gate / walls	3,960		3,960
Pest control	3,782		3,782
Office supplies & admin. costs	2,684		2,684
Repairs - plumbing	2,010		2,010
Repairs - roofs	1,175		1,175
Bad debt expense	727		727
Cable & telephone expense	580		580
TOTAL OPERATING EXPENSES	<u>154,006</u>	-	<u>154,006</u>
EXCESS REVENUES / (EXPENSES)			
FROM OPERATIONS	<u>\$ (16,563)</u>	<u>\$ -</u>	<u>\$ (16,563)</u>
EXCESS REVENUES / (EXPENSES)	<u>\$ (16,563)</u>	<u>\$ -</u>	<u>\$ (16,563)</u>
BEGINNING FUND BALANCE / (DEFICIT)	<u>9,025</u>	<u>-</u>	<u>9,025</u>
ENDING FUND BALANCE / (DEFICIT)	<u>\$ (7,538)</u>	<u>\$ -</u>	<u>\$ (7,538)</u>

See the accompanying Independent Auditors' Report  
and the Footnotes to the Financial Statements.

FOREST WEST OWNERS ASSOCIATION, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	<u>OPERATING FUND</u>	<u>REPLACEMENT FUND</u>	<u>TOTAL</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>			
Excess revenues/ (expenses)	\$ (16,563)	\$ -	\$ (16,563)
Add: Depreciation	-	-	-
Decrease / (Increase) in:			
Accounts receivable	(8,027)	-	(8,027)
Prepaid expenses	(639)	-	(639)
Increase / (Decrease) in:			
Accounts payable	12,203	-	12,203
Prepaid assessments	235	-	235
<b>NET CASH PROVIDED/ (USED) BY OPERATIONS</b>	<u>(12,791)</u>	<u>-</u>	<u>(12,791)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>			
Increase / (Decrease) in:			
Insurance notes payable	1,612	-	1,612
<b>NET CASH PROVIDED/ (USED) BY FINANCING</b>	<u>1,612</u>	<u>-</u>	<u>1,612</u>
<b>NET INCREASE/ (DECREASE) IN CASH</b>	<u>(11,179)</u>	<u>-</u>	<u>(11,179)</u>
CASH BALANCE, SEPTEMBER 30, 2008	14,377	-	14,377
CASH BALANCE, SEPTEMBER 30, 2009	<u>\$ 3,198</u>	<u>\$ -</u>	<u>\$ 3,198</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Cash paid during the year for:			
Federal Income Tax	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See the accompanying Independent Auditors' Report  
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FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

FOOTNOTE 1: The Forest West Owners Association, Inc. is a Texas non-profit corporation formed October 1, 1981. The purpose of the Association is to operate and maintain the Forest West homeowners project. The project consists of 81 units and associated common areas located in Dallas, Texas.

FOOTNOTE 2: In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through June 29, 2010, the date that the financial statements were available to be issued.

FOOTNOTE 3: The books and records for the Forest West Owners Association, Inc. are maintained on the modified cash basis of accounting. For the purposes of this audit, they have been converted to the accrual method of accounting.

FUND ACCOUNTING: The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restriction 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 major repairs and replacements.

CASH AND CASH EQUIVALENTS: For the purposes of these financial statements, cash and cash equivalents are deemed to be cash in bank checking, savings and money market accounts and time deposits with a maturity date of ninety days or less.

REVENUES: Revenues are accrued each month as the member assessments become due. Both the rates for members' assessments and the amount of any special assessments due are determined by the vote of the Board of Directors.

EXPENDITURES: Expenditures are recognized when incurred, rather than when paid. Unbudgeted, non-emergency expenditures exceeding \$ 500 must be approved by the President. All large expenditures, projects and services are contracted for using competitive bidding policies. The Board of Directors has the final approval on all contracts.

See the accompanying Independent Auditors' Report.

FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

FOOTNOTE 3: (CONTINUED):

ACCOUNTS RECEIVABLE: Monthly maintenance assessments from the homeowners are accrued each month as they become due to the Association. The Association has a lien right against each unit until all dues or assessments are paid, such liens being subordinate to governmental and mortgage liens and legal fees associated with foreclosure proceedings.

ALLOWANCE FOR DOUBTFUL ACCOUNTS: The allowance for doubtful accounts has been determined by the Association based on historical losses and by estimates based on current economical conditions. At September 30, 2009, the allowance for doubtful accounts of \$ 9,291 represents approximately 53.65 % of the total accounts receivable and approximately 87.75 % of the outstanding amounts in excess of ninety days old.

PROPERTY AND EQUIPMENT: The Association assumed, from the developer, the responsibility to maintain and preserve the common areas of the project. Real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements because the Association cannot dispose of this property. The Association capitalized personal property, if any, at cost and depreciates it using the straight-line method, over applicable useful lives.

FEDERAL INCOME TAX: The Association must make an annual election to file its Federal Income Tax return either under the provisions of the Internal Revenue code dealing specifically with Homeowners' Associations (Section 528) or Sub-Chapter A, dealing with corporations in general. Section 528 would impose a tax rate of 30% to the extent of the Association's non-exempt function net income, primarily vending, rental and interest income. Alternatively, Sub-Chapter A imposes a graduated tax on the Association's overall net income, if any.

As a result of the Association's operations for the year ended September 30, 2009, the Association has elected to file under Section 528. Income tax for the year was \$ 0.00.

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.

See the accompanying Independent Auditors' Report.

FOREST WEST OWNERS ASSOCIATION, INC.  
FOOTNOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

FOOTNOTE 4: COMMITMENTS: The Association enters into various contracts for management and accounting, lawn maintenance, pool service, and other services. These contracts are generally for a term of one year, and may generally be canceled by either party giving 30 day's notice.

FOOTNOTE 5: ECONOMIC DEPENDENCY: Lee Small owns 10 of the 81 units in the Association. This represents approximately 12.35 % of the revenue and voting power of the Association.

FOOTNOTE 6: INSURANCE NOTE PAYABLE: The Association entered into a financing agreement with Cardinal Premium Funding of Texas, LP to finance the unpaid portion of the Association's insurance premiums. The total premiums on the policy were \$ 19,610.69, with a down payment of \$ 5,652.67. The remaining premium amount of \$ 13,958.02 will be paid in 9 monthly payments of \$ 1,612.36, plus interest at the rate of 9.41 %. The payments began in February of 2009 and continued through October of 2009. As of September 30, 2009, the remaining balance of the note payable was \$ 1,612.34.

FOOTNOTE 7: REPLACEMENT FUND: The Association has not conducted a study to determine the amount of future major repairs and replacements. The Association's governing documents generally provide for the levying of special assessments or the increasing of regular assessments when major repairs and replacements are needed. As of September 30, 2009, the Association had not designated any monies for future major repairs and replacements. If operating cash amounts are not sufficient to fund future major repairs and replacements, the Association may levy special assessments or increase regular assessments. Additionally, the Association may postpone needed repairs until funds are available.

See the accompanying Independent Auditors' Report.