

**FOREST WEST OWNERS ASSOCIATION, INC.**

**Financial Statements and  
Independent Auditor's Report**

**For the Year Ended December 31, 2011**

FOREST WEST OWNERS ASSOCIATION, INC.

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Forest West Owners Association, Inc.

I have audited the accompanying balance sheet of the Forest West Owners Association, Inc. as of December 31, 2011, and the related statements of revenues and expenses, changes in member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. My responsibility is to express an opinion on those financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. These standards require that I 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 statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of Forest West Owners Association, Inc. as of December 31, 2011, and the results of operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United State of America.

As discussed in Note 8, the Association has not estimated the remaining lives and replacement costs of the common property and, therefore has not presented estimates on future repairs and replacements that the American Institute of Certified Public Accountants has determined is to supplement, although not required to be part of, the financial statements.

Lang Accounting and Tax Solutions, LLC  
Certified Public Accountant  
March 8, 2012

FOREST WEST OWNERS ASSOCIATION, INC.

BALANCE SHEET  
December 31, 2011

ASSETS

CURRENT ASSETS	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 19,053	\$	\$ 19,053
Accounts Receivable, less allowance for Doubtful Accounts	2,417		2,417
Prepaid Expenses	1,290		1,290
Prepaid Insurance	<u>15,397</u>		<u>15,397</u>
 Total Assets	 <u>38,157</u>		 <u>38,157</u>

LIABILITIES AND MEMBER'S EQUITY

<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$ 3,248	\$	\$ 3,248
Assessments received in advance	8,913		8,913
Insurance Loan Payable	10,821		10,821
Construction Loan Payable	17,032		17,032
Accrued Expense	<u>2,475</u>		<u>2,475</u>
 Total Current Liabilities	 <u>42,489</u>		 <u>42,489</u>
 <b>Long-Term Debt</b>			
Construction Loan Payable	<u>49,119</u>		<u>49,119</u>
 Total Liabilities	 <u>\$ 91,608</u>		 <u>\$ 91,608</u>
 Member's Equity	 <u>(53,451)</u>		 <u>(53,451)</u>
 Total Liabilities and m Member's Equity	 <u>\$ 38,157</u>		 <u>\$ 38,157</u>

See Notes to Financial Statements

FOREST WEST OWNERS ASSOCIATION, INC.

STATEMENT OF REVENUES AND EXPENSES  
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Revenues</b>			
Regular Assessments	\$ 149,294	\$	\$ 149,294
Miscellaneous Income			
Late/Collection Charges	420		420
Interest Income	<u>4</u>		<u>4</u>
<b>Total Revenues</b>	<u>149,718</u>		<u>149,718</u>
 <b>Operating Expenses</b>			
Utilities Expense	31,452		31,452
Legal & Professional Fees	4,684		4,684
Insurance Expense	20,132		20,132
Management Fees	20,116		20,116
Landscaping & Lawn Maintenance	8,838		8,838
Pool Maintenance & Repairs	5,241		5,241
Bad Debt Expense	550		550
Porter Service	6,102		6,102
Security Services	4,500		4,500
Trash Removal	4,031		4,031
Repairs – Electrical	952		952
Office supplies and Admin. Costs	1,609		1,609
Repairs – Other	2,360		2,360
Repairs – Roof	1,769		1,769
Repairs – Fence/Gate/Walls	3,114		3,114
Pest Control	1,800		1,800
Telephone Expense	576		576
Repairs – Plumbing	930		930
Repairs – Interior	<u>1,409</u>		<u>1,409</u>
 <b>Total Operating Expenses</b>	<u>120,165</u>		<u>120,165</u>
 <b>Excess Revenues/ (Expenses)</b>			
<b>Before Renovation Costs</b>	<u>29,553</u>		<u>29,553</u>
 <b>Renovation Costs::</b>			
Renovation contract costs	85,442		85,442
Interest Expense	<u>1,828</u>		<u>1,828</u>
	87,270	-	87,270
 <b>Excess of Revenue (Expenses) – Net</b>	<u>(57,717)</u>	<u>-</u>	<u>(57,717)</u>

See Notes to Financial Statements

FOREST WEST OWNERS ASSOCIATION, INC.

STATEMENT OF CHANGES IN MEMBER'S EQUITY  
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
Balance, December 31, 2010	\$ 4,266		\$ 4,266
Excess of revenues (expenses)	<u>(57,717)</u>	<u>-</u>	<u>(57,717)</u>
Balance, December 31, 2011	<u>\$(53,451)</u>	<u>-</u>	<u>\$(53,451)</u>

See Notes to Financial Statements

FOREST WEST OWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2011

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
<b>Cash Flow from Operating Activities:</b>			
Excess of revenues/over (expenses) before renovation costs	\$ 29,553	-	\$ 29,553
Add: Depreciation			
Decrease /( Increase) in:			
Accounts Receivable	1,729		1,729
Prepaid Expenses	(1,290)		(1,290)
Prepaid Insurance	(15,397)		(15,397)
Increase / (Decrease) in:			
Accounts Payable	(9,558)		(9,558)
Prepaid Assessments	8,913		8,913Z
Miscellaneous Payable	2,435	-	2,435
<b>Net Cash Flow Provided / (Used) By Operations</b>	<u>16,386</u>	<u>-</u>	<u>16,386</u>
<b>Cash Flow from Financing Activities:</b>			
Increase / (Decrease) in:			
Insurance Notes Payable	10,821		10,821
Renovation Loan	66,151		66,151
Renovation Costs	(87,271)	-	(87,271)
<b>Net Cash Flow Provided / (Used) By Financing</b>	<u>(10,299)</u>	<u>-</u>	<u>(10,299)</u>
<b>Net Increase / (Decrease) in Cash</b>	6,087	-	6,087
<b>Cash Balance, December 31, 2010</b>	<u>12,966</u>	<u>-</u>	<u>12,966</u>
<b>Cash Balance, December 31, 2011</b>	<u>\$ 19,053</u>	<u>\$ -</u>	<u>\$ 19,053</u>
<b>Supplemental Disclosure:</b>			
Cash paid during the year for:			
Federal Income Tax			
Interest Expense	<u>\$ 1,828</u>	<u>\$ -</u>	<u>\$ 1,828</u>

See Notes to Financial Statements

FOREST WEST OWNERS ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS  
December, 31, 2011

**1. Nature of Organization**

Forest West Owners Association, Inc. (the "Association") is a Texas non-profit corporation, incorporated October 1, 1981 to provide for the operation and maintenance of the common facilities of the 81 unit condominium complex located in Dallas, Texas.

**2. Summary of Significant Accounting Policies**

*Basis of Accounting* - The Association prepares its financial statements on the accrual basis of accounting. Under such basis, income and related assets are recognized when earned and expenses and related liabilities are recognized when incurred. Revenue of the association is generated from collection of member dues and assessments; expenses consist of insurance, utilities, and repairs and maintenance. The Association changed the basis from a modified cash basis to the accrual basis when the management company started preparing the financial statements for the Association at the suggestion of the prior auditor.

*Fund Accounting* - The Association's governing documents provide certain guidelines for governing the financial activities. To insure observance of limitations and restrictions on the use of the 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 designed for (and restricted for) future major repairs and replacements.

*Member Assessments* - Association members are subject to monthly assessments to provide funds for the Association's expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessments of members are determined by the board of directors. Those assessments are based upon the member's undivided interest in the common properties. Assessments receivable at the balance sheet date represent dues from the unit owners. Any excess assessments at year end are retained by the Association for the use in future operating periods.

*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.



## 2. Summary of Significant Accounting Policies (Continued)

*Common Area Property* – Real property and common areas acquired from or donated by the developer and related improvements to such property are not recorded in the Association's financial statements because the Association cannot dispose of the property; therefore they are not the financial assets of the Association. Replacements and improvements to the common property are not capitalized but rather charged to expense when incurred. Personal property owned by the Association, if any, is capitalized at cost and depreciated over its estimated useful life using the straight line method.

*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 a competitive bidding process. The Board of Directors has the final approval on all contracts.

*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 economic conditions. At December 31, 2011, the allowance for doubtful accounts of \$0.00, the Association believes that all past due assessments are collectible.

*Income Taxes* – Homeowner associations may be taxed as either as homeowners' associations or as regular corporations (see note 6).

*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. MAJOR RENOVATION PROJECT AND RELATED BANK LOAN**

#### Major Renovation Project

The property was in need of painting and wood replacement and bids were obtained for the major renovation project. A contract was awarded to Suburban in the amount of \$72,765. At December 31, 2011 the contract and project were 100% complete.

#### Bank Loan

In order to finance the project, on August 6, 2011, the Association borrowed \$70,000 from Florecita and Elmer Ward. The note is payable on or before August 1, 2016. The interest rate is 8% and payable over the length of the loan. At December 31, 2011, \$3,849.00 has been paid on this loan leaving \$66,151.00 to be paid by August 1, 2016. The commercial security agreement and promissory note provide that substantially all of the assets (tangible and intangible) of the Association are pledged as collateral to the loan and also contain covenants to protect the lenders interest.

### **4. FEDERAL INCOME TAXES**

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' Association (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 December 31, 2011, the Association has elected to file under Section 528. Income tax for the year was \$0.00.

### **5. COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS**

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 cancelled by either party giving 30 days notice.

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through March 6, 2012, the date that the financial statements were available to be published.

### **6. 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.

## **7. INSURANCE NOTE PAYABLE**

The Association entered into a financing agreement with Flatiron Capital to finance the unpaid portion of the Association's insurance premiums. The total premiums on the policy were \$20,529.01, with a down payment of \$4,837.40. The remaining premium amount of \$15,691.61 was to be paid in 9 monthly payments of \$1,623.53. The payments began in October 2011. As of December 31, 2011, the remaining balance of the note payable was \$10,821.02.

## **8. FUTURE MAJOR REPAIRS AND REPLACEMENTS**

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 or replacements are needed. As of December 31, 2011, the Association had not designated any monies for future major repairs or replacements. If operating cash amounts are not sufficient to fund future major repairs or replacements, the Association may levy special assessments or increase regular assessments. Additionally, the Association may postpone needed repairs until funds are available.