

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

*Years Ended December 31, 2008 and 2007
with Independent Auditor's Report*

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Wrinkle, Gardner & Company, P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of BellaVita at Green Tee Homeowners' Association, Inc.

We have audited the balance sheet of BellaVita at Green Tee Homeowners' Association, Inc. (a Texas non-profit corporation) as of December 31, 2008, and the related statements of revenues and expenses and changes in fund balance, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of BellaVita at Green Tee Homeowners' Association, Inc. as of December 31, 2007, were audited by other auditors whose report dated August 4, 2008, expressed an unqualified opinion on those statements.

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 2008 financial statements referred to above present fairly, in all material respects, the financial position of BellaVita at Green Tee Homeowners' Association, Inc. as of December 31, 2008, 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.

Wrinkle, Gardner & Company, P.C.

Friendswood, Texas
June 8, 2009

**BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
BALANCE SHEETS**

	December 31			
	2008			2007
	Operating Fund	Replacement Fund	Total	Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 333,878	\$ 787,470	\$ 1,121,348	\$ 881,990
Assessments receivable	14,214	0	14,214	28,075
Insurance claims receivable	19,589	0	19,589	0
Federal income tax receivable	427	0	427	1,472
Total current assets	<u>368,108</u>	<u>787,470</u>	<u>1,155,578</u>	<u>911,537</u>
DEPOSITS	274	0	274	274
Total assets	<u>\$ 368,382</u>	<u>\$ 787,470</u>	<u>\$ 1,155,852</u>	<u>\$ 911,811</u>
LIABILITIES AND FUND BALANCES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	\$ 37,021	\$ 0	\$ 37,021	\$ 29,029
Due to related party	0	0	0	7,936
Prepaid assessments	52,827	0	52,827	50,480
Total current liabilities	<u>89,848</u>	<u>0</u>	<u>89,848</u>	<u>87,445</u>
FUND BALANCES	278,534	787,470	1,066,004	824,366
Total liabilities and fund balances	<u>\$ 368,382</u>	<u>\$ 787,470</u>	<u>\$ 1,155,852</u>	<u>\$ 911,811</u>

See accompanying notes.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES

	Year Ended December 31			
	2008			2007
	Operating Fund	Replacement Fund	Total	Total
REVENUES				
Member assessments	\$ 755,917	\$ 463,714	\$ 1,219,631	\$ 1,110,180
Closing contributions	52,500	0	52,500	73,500
Late fees and other income	3,303	0	3,303	1,637
Activity income	42,533	0	42,533	36,244
Interest income	8,700	8,249	16,949	33,142
Total revenues	862,953	471,963	1,334,916	1,254,703
EXPENSES				
Activity expense	32,142	0	32,142	29,253
Capital expenditures	0	110,629	110,629	71,585
Insurance	31,519	0	31,519	24,986
Landscaping	259,864	0	259,864	263,340
Loss from Hurricane Ike	47,175	0	47,175	0
Maintenance and repairs	46,729	0	46,729	43,066
Master association	232,877	0	232,877	187,299
Office and administrative	22,363	0	22,363	16,668
Payroll expense	122,409	0	122,409	119,293
Professional fees	38,751	0	38,751	31,291
Swimming pool	17,289	0	17,289	18,972
Taxes - other	1,323	0	1,323	7,923
Utilities	124,835	0	124,835	122,117
Total expenses	977,276	110,629	1,087,905	935,793
Excess (deficit) of revenues over expenses before federal income taxes	(114,323)	361,334	247,011	318,910
Federal income taxes - current expense	5,373	0	5,373	2,728
Excess (deficit) of revenues over expenses	(119,696)	361,334	241,638	316,182
FUND BALANCES AT BEGINNING OF YEAR	398,230	426,136	824,366	508,184
FUND BALANCES AT END OF YEAR	\$ 278,534	\$ 787,470	\$ 1,066,004	\$ 824,366

See accompanying notes.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31			
	2008			2007
	Operating Fund	Replacement Fund	Total	Total
OPERATING ACTIVITIES				
Excess (deficit) of revenues over expenses	\$ (119,696)	\$ 361,334	\$ 241,638	\$ 316,182
Adjustments to reconcile excess (deficit) of revenues over expenses to net cash provided by (used in) operating activities:				
Changes in operating assets and liabilities:				
Assessments receivable	13,861	0	13,861	(3,105)
Insurance claims receivable	(19,589)	0	(19,589)	0
Federal income tax receivable	1,045	0	1,045	(1,472)
Accounts payable	17,764	(9,772)	7,992	6,638
Prepaid assessments	2,347	0	2,347	3,958
Federal tax payable	0	0	0	(299)
Net cash provided by (used in) operating activities	(104,268)	351,562	247,294	321,902
FINANCING ACTIVITIES				
Related party	(7,936)	0	(7,936)	7,936
Net cash provided by (used in) financing activities	(7,936)	0	(7,936)	7,936
Change in cash and cash equivalents	(112,204)	351,562	239,358	329,838
Cash and cash equivalents at beginning of year	446,082	435,908	881,990	552,152
Cash and cash equivalents at end of year	\$ 333,878	\$ 787,470	\$ 1,121,348	\$ 881,990
SUPPLEMENTAL DISCLOSURE:				
Cash paid for federal income taxes	\$ 5,800	\$ 0	\$ 5,800	\$ 4,200

See accompanying notes.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE A - ORGANIZATION

BellaVita at Green Tee Homeowners' Association, Inc. (the Association), is organized as a not-for-profit corporation for the purposes of maintaining and preserving common property of Club BellaVita. Club BellaVita currently consists of 502, with growth potential up to 626, residential single-family developments occupying a site of approximately 118 acres located in Pearland, Texas. The Association incorporated June 30, 1999 and began operations in 2001.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Association uses fund accounting, which requires that funds, such as operating funds and funds designated for future major repairs and replacements, be classified separately for accounting and reporting purposes. Disbursements from the operating fund are generally at the discretion of the board of directors. Disbursements from the replacement fund generally may be made only for designated purposes.

The financial statements have been prepared in conformance with accounting principles generally accepted in the United States of America.

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 reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Association considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. As of December 31, 2008, cash held in money market funds was protected by the U.S. Treasury Department Temporary Guarantee Program for Money Market Funds, and certificates of deposit were insured by the Federal Deposit Insurance Corporation.

Property Improvements

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 those properties are owned by the individual unit owners in common and not by the Association.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2008

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate their fair values due to the short-term maturities of these instruments.

Interest Earned

The board's policy is to allocate to each fund interest earned on all cash accounts net of income taxes.

Reclassifications of a General Nature

Certain amounts in the prior period presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net earnings.

NOTE C - OWNERS' ASSESSMENTS

Association members are subject to annual assessments to provide funds for the Association's operating expenses and major repairs and replacements. In 2008 and 2007, monthly owners' assessments were \$210.

The annual budget and assessments of owners are determined by the board of directors. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

NOTE D - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association's governing documents require funds to be accumulated for future major repairs and replacements. Accumulated funds, which aggregate approximately \$787,470 and \$436,988 at December 31, 2008 and 2007, respectively, are held in separate accounts and are generally not available for operating purposes.

Criterion-Hicks Engineers conducted a study in June 2008 to estimate the remaining useful lives and the replacement costs of the components of common property. The estimates were based on future estimated replacement costs. Funding requirements consider an annual inflation rate of 3% and interest of 1.5% percent, net of taxes, on amounts funded for future major repairs and replacements. The schedule included in the unaudited supplementary information on Future Major Repairs and Replacements is based on the study.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2008

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components and other specified expenditures. Actual expenditures and investment income may vary from the estimated amounts. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

The board is funding for major repairs and replacements over the remaining useful lives of the components based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund. Accordingly, the funding requirement of \$231,252, based on a baseline funding plan, has been included in the 2009 budget.

NOTE E - FEDERAL INCOME TAXES

The Association may be taxed either as a homeowners' association or as a regular corporation. As a regular corporation, the Association is allowed to carry over to future period's excess of expenses for the maintenance of the common property over membership source income, to offset future income from membership sources per Internal Revenue Service Code Section 277.

As a homeowners' association, in accordance with Internal Revenue Service Code section 528, the association excludes from taxation exempt function income, which generally consists of income from its operations, however, interest and other non-exempt function income, net of related expenses, is taxable. For the years ended December 31, 2008 and 2007, the Association elected to file as a homeowners' association, using form 1120-H.

NOTE F - ASSESSMENTS RECEIVABLE

The Association's policy is to retain legal counsel and place liens on the properties of homeowners whose assessments are fifteen days in arrears and therefore considered delinquent. As of December 31, 2008 and 2007, the Association had assessments receivable of \$14,214 and \$28,075, respectively, all of which were delinquent. As of June 8, 2009, \$10,478 of outstanding receivables at December 31, 2008 have been collected. It is the opinion of the board of directors that the Association will ultimately collect the remaining outstanding assessments, and, accordingly, no allowance for uncollectible accounts is deemed necessary.

Amounts received in excess of the specified monthly assessment are recorded under the liability heading of "Prepaid assessments" in the accompanying financial statements.

**BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2008**

NOTE G - RELATED PARTY

The Villas Master Association, Inc. ("Master Association") was formed to manage and operate the common areas of Villa D'Este, Villa Verde and BellaVita at Green Tee subdivisions. Although BellaVita is a separate homeowners' association it contracted with The Villas Masters Association, Inc. (which includes the subdivisions Villa D'Este and Villa Verde) for alarm monitoring, cable services and mowing of a common boulevard. During 2008 and 2007, the Association paid the Master Association \$232,877 and \$187,299, respectively, for its portion of the alarm monitoring, cable services and mowing.

The Master Association contracted on behalf of BellaVita at Green Tee, Villa D'Este, and Villa Verde for cable services and alarm monitoring. The contract for cable services is a 10-year agreement for approximately 900 units beginning June 11, 2008, at a rate of \$31.03 per residence and increasing approximately \$1.50 each year of the contract. The contract for alarm monitoring is a 3-year agreement beginning April 16, 2008, at an unchanging rate of \$9 per residence.

The following is a schedule of future minimum payments, based on 502 residences, to be paid to the Master Association required under these contracts:

<u>Year ending December 31</u>	
2009	\$ 245,598
2010	254,484
2011	224,966
2012	218,069
2013	226,984
thereafter	1,130,404
	<u>\$ 2,300,505</u>

As of December 31, 2008, the developer of Club BellaVita owned 124 of the potential 626 homes. In August 2008, per the By-Laws of the Association, the homeowners owned 75% of the homes; therefore, per the By-Laws of the Association, the developer could turn over majority voting rights on the board of directors to the homeowners. This became effective in March 2009 with the election of a new board.

BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2008

NOTE H - MANAGEMENT FEE

The Association relies on a third-party managing agent for various services involving administrative, fiscal and physical management. These services include, but are not limited to, record keeping, outsourcing payroll and insurance and managing repairs to the property. The Association pays a monthly fee for these services. Fees paid to the third-party managing agent are included in professional fees on the accompanying financial statements and totaled \$35,250 in 2008 and \$28,766 in 2007.

NOTE I - LOSS FROM HURRICANE IKE

The Association incurred approximately \$65,000 in damages to common property caused by Hurricane Ike on September 13, 2008. Repairs associated with these damages were expensed as incurred. The Association received several reimbursements from insurance in 2009. Insurance reimbursements totaled \$19,589 and are reflected as a receivable on the accompanying financial statements.

NOTE J - INTERFUND TRANSFERS

The board of directors agreed to transfer excess operating funds in the amount of \$300,000 to the replacement fund as of December 31, 2008. Due to this transfer, the operating fund for the year ended December 31, 2008, has a deficit of revenues over expenses.

Wrinkle, Gardner & Company, P.C.

Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT
ON ADDITIONAL INFORMATION**

To the Board of Directors
of BellaVita at Green Tee Homeowners' Association, Inc.

Our report on our audit of the basic financial statements of BellaVita at Green Tee Homeowners' Association, Inc. for December 31, 2008 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information shown on page 11 through is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on it.

Wrinkle, Gardner & Company, P.C.

Friendswood, Texas

June 8, 2009

**BELLAVITA AT GREEN TEE HOMEOWNERS' ASSOCIATION, INC.
 SUPPLEMENTARY INFORMATION ON FUTURE MAJOR REPAIRS AND REPLACEMENTS (UNAUDITED)
 December 31, 2008**

The Association's board of directors commissioned a consulting engineering firm in June 2008 to perform a reserve fund analysis and to determine a capital needs plan. The scope of the plan included the determination of estimating the remaining useful lives and the replacement costs of the components of BellaVita at Green Tee Homeowners' Association, Inc. Replacement costs were based on the current estimated costs to repair or replace the components indexed for an inflation rate of 3% beginning in 2010. The analysis is provided through the year 2027.

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

<u>Components</u>	<u>Estimated Remaining Useful Life (Years)</u>	<u>Estimated Current Replacement Cost</u>	<u>2009 Funding Requirement</u>	<u>Designated Repairs and Replacements December 31, 2008</u>
Site infrastructure	5 to 25	\$ 850,701	\$ 10,000	\$ 100,598
Building exterior systems	2 to 42	42,467	0	5,021
Mechanical systems	2 to 4	143,963	0	17,024
Common area amenities	1 to 7	586,932	72,500	69,407
Homeowners' property maintenance	2 to 42	5,035,137	148,752	595,420
		<u>\$ 6,659,200</u>	<u>\$ 231,252</u>	<u>\$ 787,470</u>