

Bluebonnet Homeowners' Association Inc.

Financial Statements

As at 31 December 2008

Bluebonnet Homeowners' Association Inc.

Statement of Financial Position (Unaudited)

At 31 December 2008

	31 Dec 08	31 Dec 07
Assets		
Maintenance Fund		
Cash	\$ 49,984	\$ 34,579
Accounts Receivable	3,422,089	3,758,733
Allowance For Doubtful Accounts	(3,422,089)	(3,758,733)
	<u>\$ 49,984</u>	<u>\$ 34,579</u>
Liabilities		
Maintenance Fund		
Accounts Payable	\$ 12,381	\$ -
Deferred Revenue	15,006	-
Due to Related Parties	93,099	93,026
	<u>\$ 120,486</u>	<u>\$ 93,026</u>
Net Deficiency		
Maintenance Fund	(70,502)	(58,448)
	<u>\$ (70,502)</u>	<u>\$ (58,448)</u>

Signed on behalf of the Board

Bluebonnet Homeowners' Association Inc.

Statement of Revenue and Expenditures (Unaudited)

For the year ended 31 Dec 2008

	2008	2007
Revenue		
Collection of 2007 Maintenance Fees	\$ 1,860	\$ 21,785
Collection of 2008 Maintenance Fees	29,520	-
Revenue from Foreclosure Sales	12,405	-
Collection of Arrears	46,548	-
	<hr/> \$ 90,333	<hr/> \$ 21,785
Expenditures		
Bank Fees	\$ 173	\$ 61
Courier & Postage	1,727	1,027
Front Entrance Renovations	3,016	-
Other Miscellaneous Repairs	6,035	-
Professional Fees - Accounting	1,378	-
Professional Fees - Consultants	9,936	-
Professional Fees - Legal	36,770	29,857
Property Supervisor	9,600	9,600
Refuse Removal	3,304	2,936
Road Maintenance	25,505	37,736
Room Rental for AGM	674	-
Sales Tax	1,805	-
Stationary	200	265
Travel Expenses	2,265	-
	<hr/> \$ 102,386	<hr/> \$ 81,482
Expenditures over revenues for the year	\$ (12,054)	\$ (59,697)

Bluebonnet Homeowners' Association Inc.

Statement of Changes in Net Deficiency (Unaudited)

For the year ended 31 Dec 2008

	2008		2007	
Fund Balances beginning of the year	\$	(58,448)	\$	1,249
Expenditures over revenue for the year		(12,054)		(59,697)
Fund Balances end of the year	\$	(70,502)	\$	(58,448)

Bluebonnet Homeowners' Association Inc.

Statement of Cash Flow (Unaudited)

For the year ended 31 Dec 2008

	2008	2007
Cash flow from Operating Activities		
Expenditures over revenue for the year	\$ (12,054)	\$ (59,697)
Deferred Revenue	15,006	-
Accounts Payable	12,381	-
Due to Related Parties	73	3,027
	<u>15,406</u>	<u>(56,670)</u>
Financing		
Due to Related Parties	-	90,000
Increase in cash during the year	<u>\$ 15,406</u>	<u>\$ 33,330</u>
Cash - Beginning of the year	<u>\$ 34,579</u>	<u>\$ 1,249</u>
Cash - End of the year	<u>\$ 49,985</u>	<u>\$ 34,579</u>

Bluebonnet Homeowners' Association Inc.

Notes

For the year ended 31 Dec 2008

1. NATURE OF THE ORGANIZATION

Bluebonnet Homeowners' Association Inc. (the "Association") is a Texas non-profit corporation, incorporated in 2004, to provide for the maintenance of common facilities of Bluebonnet County, a series of subdivisions containing approximately 2500 lots and 1300 acres located in Navasota, Grimes County, Texas.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Association prepares its financial statements on the accruals 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 primarily of road repair and garbage collection.

Fund Accounting - The Association's governing documents provide certain guidelines for its financial activities. To insure observance of limitations and restrictions on the use of resources, the Association maintains its accounts using fund accounting.

Member Assessments - Association members are subject to annual assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. The annual budget and assessment of members are determined by the board of directors. After all other reasonable collection efforts have been exhausted, the Association's policy is to retain legal counsel and place liens on the properties of lot owners whose assessments are delinquent.

Financial Instruments - the carrying value of cash and cash equivalents, accounts receivable and payable, and accrued liabilities approximate fair value due to the short term maturities of these assets and liabilities.

Accounting Estimates - The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. GOVERNING DOCUMENTS

The Association is the only and exclusive homeowners' association representing homeowner interests in the Bluebonnet development. Association fees are in amounts prescribed by registered covenants on title and are collected by the Association for Association purposes and obligations. The Association was incorporated, and is operated, as a not-for-profit corporation. The by-laws of the Bluebonnet Homeowners' Association Inc. is the particular document that formally governs the operations of the Association. Among other things, those by-laws:

(i) Provide that each person (or entity) who is a recorded owner of a fee or undivided fee interest in any lot shall be a Member; and

(ii) Provide definition for directors, officers and operational management of the Association.

4. FEDERAL INCOME TAXES

Federal income taxes - The Association (Federal ID no. 64-0957105) has applied for a recognition of exemption under section 501c(4) of the Internal Revenue Code. The Association is awaiting for adjudication of this request by the Internal Revenue Service.

5. MANAGEMENT CONTRACTS AND FEES

The Association employs the services of a maintenance supervisor whose primary focus is on road repair and maintenance. During 2008 \$9,600 was paid to the maintenance supervisor.

6. DUE TO RELATED PARTIES

The Association has experienced low collection rates for a number of years and as a result there is significant deferred maintenance work required for the roads. In an effort to assist with this deferred maintenance, the current Developer in the area has lent the Association \$90,000 in the form of a promissory note carrying interest at 7% per annum. Interest for 2007 and 2008 has been waived.

7. OFFICERS AND DIRECTORS

As at 31 December 2008, Officers and Directors of the Association were as follows:

Barry Ward - Director and Secretary
Doug Van Den Brink - Director & Treasurer
Vrege Armoyan - Director & President