

***TOWN AND COUNTRY VILLAGE
HOMEOWNERS ASSOCIATION, INC.***

FINANCIAL STATEMENTS

August 31, 2003

TABLE OF CONTENTS

	<u>PAGE(S)</u>
Independent Auditors' Report	1
Balance Sheet	2
Statement of Operations and Changes in Members' Equity	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 9
Required Supplementary Information	
Future Major Repairs and Replacements	10

**Board of Directors
Town and Country Village
Homeowners Association, Inc.
Parker, Colorado**

Independent Auditors' Report

We have audited the accompanying balance sheet of Town and Country Village Homeowners Association, Inc. as of August 31, 2003 and the related statements of operations and changes in members' equity 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 Town and Country Village Homeowners Association, Inc. at August 31, 2003 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.

January 9, 2004

BONDI & Co. LLP

TOWN & COUNTRY VILLAGE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET

August 31, 2003

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$ 282,063
Monthly Assessments Receivable (Note 3)	43,207
Special Assessments Receivable (Note 3)	63,076
Allowance For Doubtful Accounts (Note 3)	<u>(11,750)</u>

Total Current Assets 376,596

PROPERTY AND EQUIPMENT

(Net of Accumulated Depreciation of \$1,929) 2,924

OTHER ASSETS

Restricted Cash	192,387
Unamortized Loan Fees	1,729
Other Assets	<u>513</u>

Total Other Assets 194,629

Total Assets 574,149

LIABILITIES AND FUND BALANCES

CURRENT LIABILITIES

Accounts Payable	53,136
Income Taxes Payable	50
Payroll Liabilities	223
Deferred Revenues - Prepaid Assessments	18,147
Notes Payable (Note 6)	<u>78,014</u>

Total Current Liabilities 149,570

FUND BALANCE

Undesignated Funds 424,579

Total Liabilities and Fund Balance \$ 574,149

The accompanying notes are an integral part of the financial statements.

TOWN & COUNTRY VILLAGE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF OPERATIONS
AND CHANGES IN MEMBERS' EQUITY

For the Year Ended August 31, 2003

REVENUE

Monthly Assessments	\$ 845,504
Special Assessments	594,806
Late Charges	33,745
Other Assessments	11,123
Interest Income	1,672
Total Revenue	<u>1,486,850</u>

EXPENSES

Building Improvements	587,886
Water-Sewer	351,072
Maintenance	146,139
Insurance	68,970
Salaries	57,369
Trash Removal	46,079
Accounting	20,889
Bad Debt Expense	17,733
Rent (Note 5)	8,300
Architectural Control Committee	8,196
Postage and Printing	10,017
Interest	7,994
Utilities	5,167
Legal	4,280
Telephone	3,204
Miscellaneous	2,205
Office Equipment/Computer	3,686
Loan Fees	1,729
Community Association's Institute	1,439
Depreciation (Note 4)	882
Bank Fees	66
Total Expenses	<u>1,353,302</u>

EXCESS OF REVENUE OVER EXPENSES
BEFORE PROVISION FOR TAXES AND
EXTRAORDINARY ITEM

133,548

PROVISION FOR INCOME TAXES (Note 7)

50

EXCESS OF REVENUE OVER
EXPENSES

133,498

EXTRAORDINARY GAIN

Legal Settlement (Note 8)

194,634

FUND BALANCE, Beginning of Year

96,447

FUND BALANCE, End of Year

\$ 424,579

The accompanying notes are an integral part of the financial statements.

TOWN & COUNTRY VILLAGE HOMEOWNERS ASSOCIATION, INC.

STATEMENT OF CASH FLOWS

For the Year Ended August 31, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Homeowners	\$ 1,417,064
Cash Paid to Suppliers	(1,280,851)
Cash Paid to Employees	(57,369)
Extraordinary Item	194,634
Interest Received	1,672
	<hr/>
Net Cash Provided by Operating Activities	275,150
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Equipment	(874)
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Net Cash From Investing Activities	(874)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Retirement of Note Payable	(89,907)
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Net Cash Used in Financing Activities	(89,907)
Net Increase in Cash	184,369
Cash and Cash Equivalents, Beginning of Year	290,081
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Cash and Cash Equivalents, End of Year	474,450
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RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Excess of Revenue over Expenses	328,132
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ADJUSTMENTS TO RECONCILE EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation Expense	882
Unamortized Loan Fees	1,729
Accounts Receivable Allowance	11,750
Changes in Assets and Liabilities:	
Monthly Assessments Receivable	(34,935)
Special Assessments Receivable	(63,076)
Other Assets	376
Accounts Payable	12,095
Income Taxes Payable	50
Deferred Revenue	18,147
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Net Adjustments	(52,982)
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NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 275,150
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The accompanying notes are an integral part of the financial statements.

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS

August 31, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town and Country Village Homeowners Association, Inc. ("The Association") was incorporated on December 23, 1982, in the State of Colorado. The Association is a nonprofit corporation organized under the Colorado Nonprofit Corporation Act. The Association members are subject to monthly assessments to provide funds for operating expenses.

As the Association is located in the Parker, Colorado area, the continued payment of homeowners' assessments and the Association's ability to grow are dependent on the economy of Parker. As a homeowners' association, the ability to raise revenues through dues is dependent on the Board's willingness to set dues at a level anticipated to meet current budget needs.

The Articles allow for five (5) members to sit on the Board of Directors. All board members must have their assessments current or, as provided by the Bylaws of the Association, these individuals are not eligible to sit on the Board.

The Association prepares its financial statements on an accrual basis of accounting with an August 31 year end.

Association members are subject to monthly assessments to promote the recreation, health, safety and welfare of the residents of the properties, and for the improvement and maintenance of the common areas. Major repairs and replacements are paid out of designated reserves. Monthly assessments receivable at the balance sheet date represent fees due from homeowners.

Association members are also subject to special assessments to provide funds for the construction, reconstruction, repair, or replacement of a capital improvement on the common areas, or for the funding of any operating deficit incurred by the Association. In order for a special assessment to be assessed on the homeowners, a vote must take place. The vote must reach a quorum (60%) of the homeowners, and two-thirds of the homeowners must vote in favor of the special assessment. Special assessments receivable at the balance sheet date represent fees due from homeowners.

Monthly assessments for 2003 were \$136 per month, for units with less than 1,200 square feet, and \$155 per month, for units with more than 1,200 square

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

August 31, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

feet. Any excess assessments at year-end are retained by the Association for the use in the succeeding year.

Property and Equipment is recorded at cost and depreciation is calculated on the straight line method. Property and Equipment are depreciated over their estimated useful lives ranging from 3 to 7 years.

The Association considers cash in demand accounts and highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of the financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires 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.

NOTE 2: CASH AND INVESTMENTS

The Association maintains cash accounts in commercial banks, which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. The Association has, from time to time, deposits with banks in excess of insured limits; management is selective with regard to the choice of financial institutions with which funds are deposited. As of June 30, 2003, the Association had \$49,628 in excess of insured limits.

The Association has chosen to restrict the use of cash received from the extraordinary gain. The restriction placed on the cash states that the Association may only use this cash for the improvement of their units.

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
August 31, 2003

NOTE 3: ASSESSMENTS RECEIVABLE

The Association's policy is to consider assessments delinquent if they are not paid by the 10th of the month that they are due. Homeowners that are delinquent in the payment of their assessments are fined a one time fee of \$25, and the unpaid balance at the end of each month is charged interest at 1.5% per month (18% annually). Further, the Association retains legal counsel and place liens on the properties of homeowners whose assessments are ninety (90) days in arrears. As of August 31, 2003 the Association has monthly assessments receivable of \$43,207, and special assessments receivable of 63,076, for a total assessments receivable of \$106,283.

It is the opinion of the Board of Directors that the Association will ultimately prevail against the majority of homeowners whose assessments are delinquent. However, since there are assessments receivable that may not be fully collectible, an allowance for doubtful accounts of \$11,750 exists as of August 31, 2003. The amount of allowance for doubtful accounts is based on management estimates.

NOTE 4: PROPERTY AND EQUIPMENT

Changes in property and equipment for the fiscal year ended August 31, 2003, are as follows:

	<u>Balance</u> <u>8/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/03</u>
Property and Equipment	\$ 5,717	\$ 874	\$(1,738)	\$ 4,853
Accumulated Depreciation	<u>(2,785)</u>	<u>(882)</u>	<u>1,738</u>	<u>(1,929)</u>
Property and Equipment – Net	<u>\$ 2,932</u>	<u>\$ (8)</u>	<u>\$ _____</u>	<u>\$ 2,924</u>

Depreciation expense for the year ended August 31, 2003 was \$882.

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

August 31, 2003

NOTE 5: LEASE AGREEMENT

During fiscal 2003, the Association renewed an agreement for the rental of their office space with a term beginning on November 1, 2003 and ending on October 31, 2004. The monthly lease expense for the term of the agreement is \$676. Lease expense for the fiscal year ended August 31, 2003 is \$8,300.

Future lease commitments as of August 31, 2003 are as follows:

2004	\$ 8,112
2005	<u>1,352</u>
Total	<u>\$ 9,464</u>

NOTE 6: NOTES PAYABLE

The Association has a note payable to Imperial Bank, secured by an Association reserve account, payable in monthly installments of \$8,900, including interest at a variable rate based on the lender's prime interest rate plus 2.0%.

The estimated maturity on the note payable for the remainder of the term is as follows:

2004	<u>\$78,014</u>
Total	<u>\$78,014</u>

NOTE 7: INCOME TAXES

The Association must make an annual election to be taxed as a regular corporation or as a homeowners' association under Section 528 of the Internal Revenue Code. The Association has elected to file as a homeowners association for income tax purposes for the year ending August 31, 2003.

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

August 31, 2003

NOTE 7: INCOME TAXES (Continued)

The Association pays taxes only on amounts not received as assessments from members. The amounts received that do not qualify as non-taxable revenue are reduced by related expenses and the net amount is taxed at a 30% federal and 4.63% state tax rate. An income tax provision of \$50 was recorded for the year ending August 31, 2003.

NOTE 8: EXTRAORDINARY ITEM

During the year, the Association joined a class action lawsuit against a siding corporation for the purchase of faulty siding. The Association received approximately \$194,634 from the settlement. The lawsuit has not yet been fully resolved; therefore the Association may receive more extraordinary revenue from the settlement in fiscal 2004.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN AND COUNTRY VILLAGE HOMEOWNERS
ASSOCIATION, INC.

REQUIRED SUPPLEMENTARY INFORMATION ON FUTURE
MAJOR REPAIRS AND REPLACEMENTS

August 31, 2003

In 2001, an outside consulting firm conducted a study to estimate the remaining useful lives and current replacement cost of the components of the common property. The following table is based on that study and presents pertinent information about the common property.

<u>Components</u>	<u>Estimated Remaining Useful Lives (Years)</u>	<u>Estimated Current Replacement Costs</u>	<u>Designated for Repairs/ Replacements</u>	<u>Proposed Initial Deposit</u>
<u>POOL HOUSE</u>				
Roof	1	\$ 489,005	\$ 101,314	\$ 387,691
Gutters	1	84,960	17,602	67,358
Paint	1	601,200	103,799	497,401
Carpentry Repairs	1	87,675	15,137	72,538
Wood Fences	8	326,400	47,901	34,812
Metal Handrails	18	8,496	891	423
<u>COMMON AREA</u>				
Sprinkler System	23	288,000	4,972	12,306
Landscape Refurbishment	4	10,000	432	2,392
Entrance Signs	13	4,500	550	304
Concrete Repair	1	40,000	6,906	33,094
Asphalt: Entire Project	19	317,000	3,421	16,504
Asphalt: Seal Coat & Maintenance	5	70,438	0	14,088
Pool Boiler	1	8,000	1,611	6,389
Pool Filter	15	4,000	0	267
Pool Resurface	3	12,000	2,072	3,309
Pool Cover	8	3,000	129	359
Pool Deck	23	12,172	1,116	481
Pool Fence	23	11,025	1,011	435
Six Foot Perimeter Wood Fence	9	88,750	12,258	8,499
Mailboxes	18	16,000	1,677	796
Large Light Poles	17	17,000	1,887	889
Timber Retaining Walls	7	229,000	41,898	26,857
Totals		<u>\$ 2,729,521</u>	<u>\$ 366,585</u>	<u>\$ 1,187,191</u>

See the accompanying independent auditors' report.