

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

**FINANCIAL STATEMENTS**

**August 31, 2004 and 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 - 10
 <b>Required Supplementary Information</b>	
Future Major Repairs and Replacements	11



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


**Independent Auditors' Report**

We have audited the accompanying balance sheets of Town and Country Village Homeowners Association, Inc. as of August 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

January 14, 2005

  
**BONDI & Co. LLC**



Affiliate Offices Worldwide

TOWN & COUNTRY VILLAGE HOMEOWNERS ASSOCIATION, INC.

BALANCE SHEET  
August 31, 2004 and 2003

ASSETS

	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 306,067	\$ 282,063
Monthly Assessments Receivable (Note 3)	74,575	43,207
Special Assessments Receivable (Note 3)	10,597	63,076
Allowance For Doubtful Accounts (Note 3)	(11,750)	(11,750)
	<u>379,489</u>	<u>376,596</u>
<b>PROPERTY AND EQUIPMENT (Note 4)</b>		
(Net of Accumulated Depreciation of \$3,680 and \$1,929)	<u>15,098</u>	<u>2,924</u>
<b>OTHER ASSETS</b>		
Restricted Cash and Cash Equivalents		192,387
Restricted Investments	202,376	
Unamortized Loan Fees		1,729
Other Assets	513	513
	<u>202,889</u>	<u>194,629</u>
Total Other Assets		
	<u>202,889</u>	<u>194,629</u>
Total Assets	<u><u>597,476</u></u>	<u><u>574,149</u></u>

LIABILITIES AND FUND BALANCES

<b>CURRENT LIABILITIES</b>		
Accounts Payable	57,360	53,136
Income Taxes Payable	150	50
Payroll Liabilities	2,241	223
Deferred Revenues - Assessments	18,505	18,147
Note Payable (Note 6)		78,014
	<u>78,256</u>	<u>149,570</u>
Total Current Liabilities		
	<u>78,256</u>	<u>149,570</u>
<b>FUND BALANCE</b>		
Designated for Future Major Repairs and Replacements	366,585	366,585
Undesignated Funds	152,635	57,994
	<u>366,585</u>	<u>366,585</u>
	<u>152,635</u>	<u>57,994</u>
Total Liabilities and Fund Balance	<u><u>\$ 597,476</u></u>	<u><u>\$ 574,149</u></u>

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
REVENUE		
Monthly Assessments	\$ 857,532	\$ 845,504
Special Assessments		594,806
Late Charges	35,630	33,745
Other Assessments	9,930	11,123
Interest Income	2,335	1,672
Other Income	5	
	<hr/>	<hr/>
Total Revenue	905,432	1,486,850
EXPENSES		
Water-Sewer	365,208	351,072
Maintenance	149,946	146,139
Insurance	82,918	68,970
Salaries	67,173	57,369
Trash Removal	47,949	46,079
Miscellaneous	28,332	2,205
Bad Debt Expense	20,474	17,733
Building Improvements	13,808	587,886
Postage and Printing	8,765	10,017
Rent (Note 5)	8,086	8,300
Accounting	6,915	20,889
Legal	5,209	4,280
Utilities	4,897	5,167
Architectural Control Committee	3,800	8,196
Telephone	2,984	3,204
Office Equipment/Computer	1,887	3,686
Depreciation (Note 4)	1,751	882
Interest	1,722	7,994
Community Association's Institute	975	1,439
Bank Fees	60	66
Loan Fees		1,729
	<hr/>	<hr/>
Total Expenses	822,859	1,353,302
EXCESS OF REVENUE OVER EXPENSES BEFORE PROVISION FOR TAXES AND EXTRAORDINARY ITEM	82,573	133,548
PROVISION FOR INCOME TAXES (Note 7)	150	50
EXCESS OF REVENUE OVER EXPENSES	82,423	133,498
EXTRAORDINARY GAIN Legal Settlement (Note 8)	12,218	194,634
FUND BALANCE, Beginning of Year	424,579	96,447
FUND BALANCE, End of Year	<u>\$ 519,220</u>	<u>\$ 424,579</u>

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Homeowners	\$ 926,295	\$ 1,417,064
Cash Paid to Suppliers	(747,743)	(1,280,851)
Cash Paid to Employees	(67,173)	(57,369)
Extraordinary Item	12,218	194,634
Interest Received	2,335	1,672
	<u>125,932</u>	<u>275,150</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Equipment	(13,925)	(874)
Purchase of Securities	(202,376)	
	<u>(216,301)</u>	<u>(874)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Retirement of Note Payable	(78,014)	(89,907)
	<u>(78,014)</u>	<u>(89,907)</u>
Net Increase (Decrease) in Cash	(168,383)	184,369
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>474,450</u>	<u>290,081</u>
CASH AND CASH EQUIVALENTS, End of Year	<u><u>306,067</u></u>	<u><u>474,450</u></u>
<b>RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Excess of Revenue over Expenses	<u>94,641</u>	<u>328,132</u>
<b>ADJUSTMENTS TO RECONCILE EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation Expense	1,751	882
Unamortized Loan Fees	1,729	1,729
Accounts Receivable Allowance		11,750
Changes in Assets and Liabilities:		
Monthly Assessments Receivable	(31,368)	(34,935)
Special Assessments Receivable	52,479	(63,076)
Other Assets		376
Accounts Payable	4,224	12,095
Income Taxes Payable	100	50
Deferred Revenue	358	18,147
Payroll Liabilities	2,018	
	<u>31,291</u>	<u>(52,982)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 125,932</u></u>	<u><u>\$ 275,150</u></u>

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, 2004 and 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 2004 and 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

TOWN AND COUNTRY VILLAGE HOMEOWNERS  
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
August 31, 2004 and 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

square 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. Investments are classified as held to maturity.

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.

Certain information from the prior year has been changed to conform to the current year presentation.

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 August 31, 2004 and 2003, the Association had \$856 and \$49,628 in excess of insured limits, respectively.

The Association has chosen to restrict the use of cash received from the extraordinary gain received in fiscal 2003. 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, 2004 and 2003

NOTE 2: CASH AND INVESTMENTS (Continued)

The Association's investments include the following:

Commercial Fixed Income	\$ 87,000
Government Fixed Income	115,376
Certificate of Deposit	197,000
Money Market	<u>19,459</u>
Total	<u>\$ 418,835</u>

The Certificate of Deposit and Money Market amounts are listed as cash and cash equivalents on the balance sheet.

NOTE 3: ASSESSMENTS RECEIVABLE

The Association's policy is to consider assessments delinquent if they are not paid by the 10<sup>th</sup> 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 places liens on the properties of homeowners whose assessments are ninety (90) days in arrears. As of August 31, 2004 and 2003, the Association has monthly assessments receivable of \$74,575 and \$43,207, and special assessments receivable of \$10,597 and 63,076, for total assessments receivable of \$85,172 and \$106,283, respectively.

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, 2004 and 2003. The amount of allowance for doubtful accounts is based on management estimates.

TOWN AND COUNTRY VILLAGE HOMEOWNERS  
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
August 31, 2004 and 2003

NOTE 4: PROPERTY AND EQUIPMENT

Changes in property and equipment for the fiscal year ended August 31, 2004, are as follows:

	<u>Balance</u> <u>8/31/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>8/31/04</u>
Property and Equipment	\$ 4,853	\$ 13,925	\$	\$18,778
Accumulated Depreciation	<u>(1,929)</u>	<u>(1,751)</u>	<u>          </u>	<u>(3,680)</u>
Property and Equipment – Net	<u>\$ 2,924</u>	<u>\$ 12,174</u>	<u>\$</u>	<u>\$15,098</u>

Depreciation expense for the year ended August 31, 2004, was \$1,751.

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, 2004 and 2003

NOTE 5: LEASE AGREEMENT

Subsequent to fiscal 2004, the Association renewed an agreement for the rental of their office space with a term beginning on November 1, 2004, and ending on October 31, 2006. The monthly lease expense for the term of the renewed agreement is \$710. Lease expense for the fiscal year ended August 31, 2004 and 2003, is \$8,086 and \$8,300, respectively.

Future lease commitments as of August 31, 2004, are as follows:

2005	\$ 8,400
2006	8,520
2007	<u>1,420</u>
Total	<u>\$ 18,340</u>

NOTE 6: NOTE 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 balance of the note was paid off in fiscal 2004.

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 elected to file as a homeowners association for income tax purposes for the years ending August 31, 2004 and 2003.

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 \$150 and \$50 was recorded for August 31, 2004 and 2003, respectively.

TOWN AND COUNTRY VILLAGE HOMEOWNERS  
ASSOCIATION, INC.

NOTES TO THE FINANCIAL STATEMENTS (Continued)  
August 31, 2004 and 2003

NOTE 8: EXTRAORDINARY ITEM

During fiscal 2003, 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. At the end of 2003, the lawsuit had not been fully resolved. The Association received an additional \$12,218 in extraordinary revenue from the settlement in fiscal 2004.

NOTE 9: SUBSEQUENT EVENT

Subsequent to year-end, the Association entered into an agreement to have the exterior of all units in the Association painted. The contract amount is \$788,783. A special assessment of \$707,792 was passed subsequent to year-end by the members of the Association to cover the cost of the painting.

***REQUIRED SUPPLEMENTARY INFORMATION***

TOWN AND COUNTRY VILLAGE HOMEOWNERS  
ASSOCIATION, INC.

FUTURE MAJOR REPAIRS AND REPLACEMENTS

August 31, 2004

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.