

**Town and Country Village
Homeowners Association, Inc.**
Financial Statements
And Supplementary Information
For the Year Ended August 31, 2006

With Independent Auditors' Report

Town and Country Village Homeowners Association, Inc.

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Revenues, Expenses, And Changes in Fund Balance	3
Statement of Cash Flows	4
Notes to Financial Statements	5-10
Supplementary Information about Future Major Repairs and Replacements	11

Brashier & Foss, CPAs, PC

Independent Auditors' Report

To the Board of Directors and Members of
Town and Country Village Homeowners Association, Inc.

We have audited the accompanying balance sheet of Town and Country Village Homeowners Association, Inc. as of August 31, 2006, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended. These financial statements are the responsibility of Town and Country Village Homeowners Association, Inc.'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. as of August 31, 2006, 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.

The Supplementary Information about Future Major Repairs and Replacements on page eleven is not a required part of the basic financial statements of Town and Country Village Homeowners Association, Inc. but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Brashier & Foss, CPAs, PC

Brashier & Foss, CPAs, PC

September 18, 2006

Town and Country Village Homeowners Association, Inc.
Balance Sheet
December 31, 2005

	Operating Fund	Replacement Fund	Total
ASSETS			
Cash and Cash Equivalents	\$62,658	\$76,855	\$139,513
Certificates of Deposit/Held to Maturity Securities		584,745	584,745
Available for Sale Securities		86,578	86,578
Accrued Interest Receivable		8,520	8,520
Assessments Receivable:			
Regular	60,308		60,308
Special	5,983		5,983
Allowance for Doubtful Accounts	(26,340)		(26,340)
Prepaid Insurance	12,924		12,924
Prepaid Federal Income Taxes	1,179		1,179
Property and Equipment, Net of Accumulated Depreciation of \$85,838	79,886		79,886
Total Assets	\$196,598	\$756,698	\$953,296
 LIABILITIES AND FUND BALANCE			
Accounts Payable	\$60,156		\$60,156
Payroll Taxes Payable	242		242
State Income Taxes Payable	543		543
Assessments Received in Advance	29,980		29,980
Total Liabilities	90,921	0	90,921
Fund Balance	105,677	756,698	862,375
Total Liabilities and Fund Balance	\$196,598	\$756,698	\$953,296

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

Town and Country Village Homeowners Association, Inc.
Statement of Revenues, Expenses
and Changes in Fund Balance
For the Year Ended August 31, 2006

	Operating Fund	Replacement Fund	Total
REVENUES			
Member Assessments	\$849,179	\$167,717	\$1,016,896
Income Reallocation	(54,753)	54,753	0
Interest/Investment Income	1,982	31,463	33,445
Other	31,177		31,177
Total Revenue	827,585	253,933	1,081,518
EXPENSES			
Utilities	469,659		469,659
Grounds Maintenance	126,402		126,402
Building Maintenance	85,050		85,050
Insurance	81,180		81,180
Management Expenses	56,743		56,743
Administrative	21,499		21,499
Bad Debt Expense	15,179		15,179
Office Rent	8,870		8,870
Pool Maintenance	7,858		7,858
Depreciation	6,537		6,537
Income Tax Expense	5,201		5,201
Professional Fees	5,031		5,031
Replacement Fund Expenses			
Buildings		459,085	459,085
Fences		65,000	65,000
Other		6,602	6,602
Total Expenses	889,209	530,687	1,419,896
Excess (Deficit) of Revenues over Expenses	(61,624)	(276,754)	(338,378)
Fund Balance, September 1, 2005	159,205	1,033,452	1,192,657
Prior Period Adjustment	8,096	0	8,096
Fund Balance, August 31, 2006	\$105,677	\$756,698	\$862,375

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

Town and Country Village Homeowners Association, Inc.
Statement of Cash Flows
For the Year Ended August 31, 2006

	<u>Operating Fund</u>	<u>Replacement Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess (deficit) of revenues over expenses	(\$61,624)	(\$276,754)	(\$338,378)
Adjustment to reconcile excess of revenues over expenses to net cash provided by operating activities:			
Bad Debt Expense	15,179		15,179
Depreciation	6,537		6,537
(Increase) decrease in:			
Assessments Receivable	33,381		33,381
Accrued Interest Receivable		(8,520)	(8,520)
Prepaid Insurance	923		923
Prepaid Federal Income Taxes	(1,151)		(1,151)
Increase (decrease) in:			
Accounts Payable	(28,117)		(28,117)
Assessments Received in Advance	4,150		4,150
Income Taxes Payable	(4,476)		(4,476)
Payroll Taxes Payable	3		3
	<u>(35,195)</u>	<u>(285,274)</u>	<u>(320,469)</u>
Net Cash Used by Operating Activities			
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net Maturity of Investments		226,834	226,834
	<u>0</u>	<u>226,834</u>	<u>226,834</u>
Net Cash Provided by Operating Activities			
CASH FLOWS FROM FINANCING ACTIVITIES:			
	<u>0</u>	<u>0</u>	<u>0</u>
Net Decrease in Cash	(35,195)	(58,440)	(93,635)
Cash, September 1, 2005	97,853	135,295	233,148
Cash, August 31, 2006	<u>\$62,658</u>	<u>\$76,855</u>	<u>\$139,513</u>
Supplemental Disclosure			
Interest Paid	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Income Taxes Paid	<u>\$10,828</u>	<u>\$0</u>	<u>\$10,828</u>

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

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Town and Country Village Homeowners Association, Inc. is a statutory homeowners' association which was organized as a Colorado non-profit corporation on December 23, 1982, for purposes of maintaining and preserving common areas of the development owned jointly by members of the Association. The development consists of 501 single family homes and is located in Parker, Colorado.

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of 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:

<i>Operating Fund</i>	This fund is used to account for financial resources available for the general operations of the Association.
<i>Replacement Fund</i>	This fund is used to accumulate financial resources designated for future major repairs and replacements.

Basis of Accounting

Both the accompanying financial statements and related corporate income tax returns have been prepared in accordance with the accrual method of accounting.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchases with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

The Association has one source of accounts receivable, homeowners. Accounts receivable from homeowners may be secured by a lien upon their unit. The Association has adjusted accounts receivable for all known uncollectible accounts.

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 1. Nature of Operations and Summary of Significant Accounting Policies - continued

Allowance for Doubtful Accounts

The Association's policy is to enforce collection of assessments by retaining legal counsel and by placing liens on the properties of delinquent members. It is the opinion of the Association's Board that, in the absence of foreclosure or personal bankruptcy proceedings of the delinquent members, the Association will ultimately prevail in most instances. However, the Association has adopted the allowance for doubtful accounts method of providing for assessments which may not be collected during the next twelve month period.

Common Area

Title to the common area has been deeded to the Association by the developer. The common area properties are not reflected in the accompanying financial statements because the association owns an undivided ownership interest in the common area properties.

The disposition of common property is restricted by the Association's governing documents, but the Association may decide to dispose of the capitalized property by approval of the unit owners.

Property and equipment are stated at cost, net of depreciation. Depreciation is computed using the modified accelerated cost recovery system. The Association uses tax depreciation methods for the book depreciation.

Property and equipment are summarized by major classifications as follows:

Land	\$ 17,761
Pool Building	35,852
Furnishings and Equipment	<u>112,111</u>
	165,724
Less accumulated depreciation	<u>(85,838)</u>
	<u>\$ 79,886</u>

Interest Earned

The Board's policy is to not allocate interest earned between funds, but rather report such interest in the fund in which it was earned.

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 1. Nature of Operations and Summary of Significant Accounting Policies - continued

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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.

Note 2. Held-to-Maturity and Available for Sale Securities

Certificates of Deposit

The Association has invested funds in certificates of deposit. The Association intends to hold the investments until maturity.

<u>Description</u>	<u>Amount</u>	<u>Date of</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>
Washington Mutual Bank - NV	\$50,000	9/15/06	4.600%
Centennial Bank Odgen - UT	40,000	11/6/06	3.800%
LaSalle Bank NA - IL	50,000	12/15/06	4.800%
First Federal Bank of CA	50,000	3/14/07	4.900%
Discover Bank - DE	40,000	5/4/07	4.000%
BMW Bank of NA - UT	50,000	9/17/07	4.900%
Lehman Bros. Bank FSB - DE	50,000	3/17/08	5.000%
Wright Express Financial - UT	75,000	4/27/09	5.200%
National Bk S C Sumter	14,745	4/28/09	2.000%
Lehman Bros. Bank FSB - DE	40,000	5/17/11	5.350%
Southwest Bk of St Louis - MO	<u>75,000</u>	10/05/11	5.250%
	<u>\$534,745</u>		

Government-Backed Mortgage Securities

The Association has invested in debt securities with long term maturities. The Board of Directors intends to hold these securities until maturity. The investment listed first is recorded at amortized cost and is included in the Certificates of Deposit/Held to Maturity Securities on the Balance Sheet. The second investment is recorded at fair value and is included in the Available for Sale Securities on the balance sheet. Unrealized gains and losses, resulting from changes between cost and fair market value are listed below.

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 2. Held-to-Maturity and Available for Sale Securities – continued

Government-Backed Mortgage Securities - continued

<u>Description</u>	<u>Principal Balance</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>
Federal Natl Mtg Assn	\$50,000	\$49,657	(\$343)	9/7/10	5.250%
Federal Natl Mtg Assn	<u>11,723</u>	<u>11,578</u>	<u>(145)</u>	8/15/34	5.250%
	<u>\$61,723</u>	<u>\$61,235</u>	<u>(\$488)</u>		

Money Market and Auction Instruments

The Association has invested in two income funds consisting of preferred shares. The investments are recorded at market value on the balance sheet. Unrealized gains and losses, resulting from changes between cost and fair market value are listed below.

<u>Description</u>	<u>Principal Balance</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>	<u>Date of Reset</u>	<u>Interest Rate</u>
Calamos CV & High Inc FD SR TU	\$25,000	\$25,000	\$0	9/5/06	4.900%
Calamos CV & High Inc FD SR W	<u>50,000</u>	<u>50,000</u>	<u>0</u>	9/6/06	4.750%
	<u>\$75,000</u>	<u>\$75,000</u>	<u>\$0</u>		

Unrealized losses relating to Available for Sale Securities is only \$145 and therefore the presentation of a Statement of Comprehensive Income is not considered necessary.

Note 3. Owners' Assessments

Monthly assessments to owners for the year ended August 31, 2006 were \$139 and \$158 for the month of September and between \$164 and \$199 for the remaining eleven months. Approximately 16.5% were designated to the replacement fund, with an additional transfer of \$54,753 made at year end. 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.

The Association approved an increase in monthly assessments of approximately 3% beginning September 1, 2006.

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 4. Future Major Repairs and Replacements

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and generally are not available for expenditures for normal operations.

A reserve study was prepared by Bradley Property Consultants in 2005 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. No adjustments were made for an interest rate or an inflation rate on amounts funded for future major repairs and replacements. The table included in the Supplementary Information about Future Major Repairs and Replacements on page ten is based on the study.

The Board is funding major repairs and replacements over their remaining useful lives based on the study's estimates of current replacement costs and considering amounts previously accumulated in the replacement fund.

Funds are being accumulated in the replacement fund based on estimates of future costs for repairs and replacements of common property components. Actual expenditures may vary from the estimated future expenditures and the variation may be material. 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 to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

Note 5. Federal and State Corporate Income Taxes

Homeowners' associations may be taxed either as regular corporations or as homeowners' associations. For the year ended August 31, 2006, the Association was taxed as a regular corporation in accordance with Internal Revenue Service Code Section 277. As a regular corporation, membership income is exempt from taxation if certain elections are made, and the Association is taxed only on its nonmembership income, such as interest earnings, at regular federal and state corporate rates. The Association incurred a combined income tax expense of \$5,201 for the year ended August 31, 2006.

A membership loss carry forward of \$44,768 is available to offset membership net income if a regular corporation income tax return is filed in future years

The choice of filing as a regular corporation or as a homeowners' association is based primarily on the policy of tax minimization.

Town & Country Village Homeowner Association, Inc.
Notes to Financial Statements
August 31, 2006

Note 6. Related Parties

Maintenance services are provided by Western Ventures, which is owned by an owner of eleven homes in the Association. The Association paid \$43,145.68 and owed \$5,532.06 to Western Ventures for services received during the year ended August 31, 2006.

A member of the Board of Directors and homeowner works in the Association's office and was paid \$2,945.07 for services received during the year ended August 31, 2006.

Note 7. Lease Agreement

The Association has entered into a lease agreement for the rental of office space beginning November 1, 2004 and ending October 31, 2006. Monthly rent expense for the year ended August 31, 2006 was \$710 in September and October and \$745 in November through August, for a total rent expense of \$8,870. The Association had not renewed the lease as of September 18, 2006. Future lease commitments total \$1,490 for September and October 2006.

Note 8. Prior Period Adjustment

Two prior period adjustments were recorded to the Operating Fund Balance retained earnings account to adjust beginning prepaid insurance and to record the prior year's income tax expense. The net affect on the Operating Fund Balance retained earnings balance was an increase of \$8,096.42.

Note 9. Contingencies

The Association is a party to various legal actions normally associated with homeowners' associations, such as the collection of delinquent assessments and covenant compliance matters, the aggregate effect of which, in management's opinion, would not be material to the future financial condition of the Association.

Town & Country Village Homeowner Association, Inc.
Supplementary Information about Future
Major Repairs and Replacements (Unaudited)
August 31, 2006

A reserve study was prepared by Bradley Property Consultants in 2005 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. No adjustments were made for an interest rate or inflation rate on amounts funded for future major repairs and replacements.

The following table is based on the study and presents significant information about the components of common property, which has not been revised.

<u>Components</u>	<u>Estimated Economic Life</u>	<u>Estimated Remaining Life</u>	<u>Estimated Current Cost</u>
Sprinkler System	25	20	\$288,000
Landscape Refurbish	5	3	10,000
Entrance Signs	30	10	4,500
Concrete Repair	5	4	40,000
Asphalt	20	16	348,700
Asphalt Seal Coat	5	2	60,375
Pool Boiler	15	14	9,500
Pool Filter	15	13	4,000
Pool Resurface	15	2	12,000
Pool Cover	10	9	4,500
Pool Deck	40	20	12,172
Pool Fence	40	20	11,025
Wood Fence & Stain	25	2-5	553,170
Mailboxes	35	15	24,000
Large Light Poles	35	15	17,000
Timber Retaining Walls	45	6	229,900
Roof	25	23	973,400
Gutters	5	5	50,100
Paint	5	5	526,050
Carpentry Repairs	5	5	65,130
Metal Handrails	35	14	8,496
Total			<u>\$3,252,018</u>

See Auditors' Report.